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

Eurasia Drilling Company Limited is the largest independent provider of onshore drilling services in Russia, as measured by the number of metres drilled, providing onshore integrated well construction services and workover services. In addition, we provide offshore drilling services in the Caspian Sea. We offer our onshore integrated well construction and workover services to local and international oil and gas companies primarily in Russia and our offshore drilling services to Russian and international oil and gas companies in the Russian, Kazakh and Turkmen sectors of the Caspian Sea. Our customers include a number of the major Russian and international oil and gas companies operating in Russia and the Caspian Sea, such as LUKOIL, Rosneft, Gazpromneft, TNK-BP, Shell, KazMunaiGaz affiliates, Samara-Nafta and Naryanmarneftegaz, a joint venture between LUKOIL and ConocoPhillips.

The following report represents management's discussion and analysis of financial condition and results of operations for the six month period ended June 30, 2010 (the Interim Period) and is intended to help our shareholders and other users of our financial statements better understand our operations and attendant financial results and current financial condition. This information is provided as a supplement to, and should be read in conjunction with our reviewed 2010 Interim Consolidated Financial Statements and the accompanying notes, prepared in accordance with US GAAP. As used in this report, "Company", "we," "us," "our" and "EDC" means Eurasia Drilling Company Limited and, where the context requires, includes our subsidiaries.

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

Overview of operations during 1H 2010

In the first six months of 2010, CDU TEK data indicates that the overall drilling market in Russia was up 14% as compared to the corresponding period of 2009. Drilling volumes started to accelerate at the end of the first quarter after a slow start at the beginning of the year caused by harsh weather conditions. Exploration drilling volumes as per CDU TEK data increased by 46% as compared to the corresponding period of 2009 coming closer to pre-crisis levels. In general in the first six months of 2010 we witnessed a revival in the drilling activity of almost all the Russian oil majors, except for our major client.

Our Interim Period 2010 operating results include:

- Achieved drilling output of 1,974 thousand meters for the first six months of 2010, 2% above the output achieved in the corresponding period of 2009 (1,927 thousand meters);
- Further diversified our customer portfolio by commencing drilling operations for TNK BP in May 2010;
- Reduced our reliance on our largest customer in the first six months of 2010 with its' share comprising 60% of our total drilling volumes compared to 63% in the corresponding period of 2009;
- Ordered five new rigs with projected delivery times commencing in October 2010 for expected onshore operations outside of the CIS and two rigs for our operations in Russia;
- Employed fully our jack-up rig, ASTRA, in Turkmen and Russian waters of the Caspian Sea; three directional production wells were drilled and completed;
- Continued our operations on LUKOIL's Yuri Korchagin field platform in the Caspian Sea where we drilled three wells;
- Remained active with two drilling rigs in Kazakhstan; two wells were completed and another two drilled for the first six months of 2010;
- Completed in March 2010 fabrication of our first 450 ton rig named "YERMAK".

Demand for drilling services depends on a variety of factors, including worldwide demand for oil and gas, the ability of OPEC to set and maintain production levels and pricing, the level of production of non-

OPEC countries and the policies of the various governments regarding exploration and development of their oil and gas reserves.

Our results of operations depend on the levels of activity in Russia and countries of the Caspian Sea, and the prices of crude oil and natural gas in Russia. While world prices for crude oil are characterised by significant fluctuations, 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.

For the first six months ended of 2010, the Company is on its way to achieving its 2010 targets, supported by excellent performance from all business segments. During the first half of 2010 our business benefited from market conditions characterized by quite stable oil prices and ruble to US dollar exchange rates that lead to increases in capital spending by all the Russian oil majors, except for our major client.

Our Russian onshore drilling volumes were 1,974 thousand meters which is 2% above volumes achieved in 2009. The drilling volumes of our major customer declined by 3% during the first six months of 2010 as compared to the corresponding period of 2009. We gained additional volumes with other clients including GAZPROMNEFT that now accounts for 27% of our total drilling volumes as compared to 23% during the corresponding period of 2009. Our market share for the first six months of 2010 was 24% which is two percentage points below the corresponding period of 2009. This reduction was mainly caused by expansion in drilling operations by the in-house drilling divisions of many Russian oil majors, especially SURGUTNEFTEGAS.

The drilling pattern in the first half of 2010 was characterized by greater seasonality than the corresponding period of last year. There was a slow start at the beginning of the year caused by severe winter conditions in West Siberia as well as higher exploration activity (which occurs during the ice-road season and ties up rigs by isolating them in remote areas). As per CDU TEK data, exploration drilling volumes in onshore Russia during the first half of 2010 were above the corresponding period of 2009 by 46%. Drilling accelerated starting from March reaching its peak in May during the first six months of 2010. In May 2010 we drilled 398 thousand meters - a record for our operating history.

For the six months period ended June 30, 2010 we have expanded our rig fleet to a total of 208 drilling rigs as compared to 207 at the end of 2009. In March 2010 we completed the fabrication of a 450 ton high-spec rig named “YERMAK”. This is a unique rig in Russia that has a Quadra Moving System, enabling it to walk and turn in any direction. In addition it has a separate fixed mud block incorporating mud pumps, tanks and processing equipment; and flexible interconnecting umbilical system that conducts drilling fluids, steam and electrical energy and control systems cabling. This is the first rig of its kind designed to operate in Russia’s specific environment characterized by extremely cold winter conditions combined with warm summer temperatures. Also, the rig is designed for cluster drilling which is important since approximately 95% of the production wells in Russia are drilled directionally from pad clusters. We continue to work on the design of another rig, a 320-ton high-spec drilling rig. Having these designs in place, will allow us to fabricate high spec rigs in facilities both in Russia and outside to support our growth. Our drilling rig fleet will expand later this year as we recently ordered five rigs for our expected operations outside of CIS and two rigs for our current operations in Russia. These are 320 ton and 315 ton high spec rigs with delivery times projected to start in October 2010.

One of the key factors to our success is continuous work on improving and maintaining high crew productivity. For the first six months ended June 30, 2010 our crew productivity suffered slightly from extreme weather conditions and higher exploration drilling activity. Exploration drilling is inherently much less efficient that production drilling so an increase in exploration drilling skews the overall drilling efficiency metric. Additionally, this year we began a number of new drilling contracts, where we were challenged to drill deeper wells that decreased our average drilling speed. It is important to note that without the significant upgrade and modernization of our rig fleet performed in the past years, application of more advanced drilling technologies and the application of new standards to our drilling operations , we would not be able to win contracts for higher margin deep and horizontal drilling. Advanced crew training and application of innovative technologies allowed us to both improve Rates of Penetration (ROP) and reduce Non-Productive Time (NPT). Examples of technological advancements included wider usage of Polycrystalline Diamond Compact (PDC) drill bits, introduction of new generation drilling motors, optimisation of bottom-hole-assemblies (BHAs) and mud programs/properties, and real-time drilling navigation. The use of top-drives and four-step drilling mud cleaning systems on our high specification rigs further improved ROP and efficiency in the increasingly more challenging wells we are drilling.

Our success depends on our ability to charge clients market prices for our onshore and offshore drilling and other services. 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 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 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 during this period. The pricing formula for this new Framework Agreement is similar to that contained in the prior Framework 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.

Among other strategic goals, we are aiming to diversify our customer base while building long-term relationships with our clients. In 2007 the share of our major customer, LUKOIL, was 77% of total drilling volumes. For the first half of 2010 its share went down to 60%. Of particular note is that during the Interim Period we commenced in 2010 drilling operations for TNK-BP with two rigs. 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 high standard performance. To summarize, the list of our clients includes the four largest E&P companies in Russia which, together, accounted for 55% of the total drilling volumes in Russia during the first half of 2010 based on CDU TEK data. In 2010 we have also won important contracts with another four new clients, including Pechoraneft and Rusvietpetro.

Our offshore operations remained strong during the first half of 2010. Our jack-up rig, Astra, is fully booked and was employed in Turkmen and Russian waters of the Caspian Sea during the first half of 2010. Three wells were drilled and completed. In June 2010 our jack-up rig, Astra, participated in an international training aimed at the offshore emergency response operations for the possible oil spills in the Northern part of the Caspian Sea. Our jack-up, ASTRA, was used as a control centre and successfully performed as expected during the exercise.

We continue our operations on LUKOIL's Yuri Korchagin field platform and drilled three wells during the first six months of 2010 including one vertical and two directional wells.

In June 2010 we acquired a Russian workover service company in the Komi Republic, Timan Pechora region. In the beginning of August 2010 we acquired a Russian provider of cementing services with operations mainly located in West Siberia. The amount paid for the two acquisitions was approximately US $20 million.

Overview of financial performance during 1H 2010

During the six months period ended June 30, 2010 we achieved remarkable financial results across all lines and geographies of our business that were better than our initial expectations. We continued to concentrate on execution backed by our continuous investment in drilling rig fleet modernization and upgrade. Our first six months 2010 results reflect revival in the overall drilling market activity as compared to first six months of 2009.

Our Interim Period 2010 financial results include:

- Revenue for the six months ended June 30, 2010 was US $862 million which is US $189 million above the corresponding period of 2009 (1H09 Revenue was US $673 million);
- EBITDA margin improved to 23.9% for six months period ended June 30, 2010, which is two percentage points above the corresponding period of 2009 (1H2009 EBITDA margin was 21.9%)
- Net Income for the six months ended June 30, 2010 was US $105 million which is US $27 million above the corresponding period of 2009 (1H09 Net Income was US $78 million);
- Diluted earnings per share for six months period ended June 30, 2010 were US $0.75 (1H09 diluted earnings per share were US $0.57);
- Net income margin for the first six months of 2010 was 12.2% which is 0.6% above the corresponding period of 2009 (1H09 net income margin was 11.6%);
- The six months 2010 average US dollar exchange rate was slightly over 30 rubles as compared to slightly over 33 rubles in the respective 2009 period, a percentage change of 9.1%

Reconciliation of Net Income to EBITDA

Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) is computed with reference to the Company's net income for the six month period ended June 30, 2010 and the six month period ended June 30, 2009 as follows (in thousands of US dollars, unaudited):

	2010	**2009**
Net Income	**104,810**	**78,392**
Income Tax Expense	37,228	21,440
Gain on Disposal of PP&E	(5,790)	(688)
Currency Transaction Loss/(Gain)	1,870	(5,328)
Interest Income	(6,531)	(3,655)
Interest Expense	7,629	7,530
Depreciation	67,127	49,791
EBITDA	**206,343**	**147,482**

Revenues

The following table sets forth a summary of our operating results for the first six months of 2010 and for the first six months of 2009 (for additional information, please see the accompanying 2010 Interim Consolidated Financial Statements):

Consolidated statements of income for the six months ended June 30, 2010 and 2009
(All figures in thousands of US dollars, unless otherwise noted, unaudited):

	2010	**2009**
Revenues		
Drilling and related services	853,572	666,086
Other sales and services	8,441	7,102

Total revenues	**862,013**	**673,188**
Cost of services	(555,368)	(449,022)
Selling, general and administrative expenses	(54,659)	(43,944)
Taxes other than income taxes	(45,698)	(32,376)
Depreciation	(67,127)	(49,791)
(Loss)/gain on disposal of property, plant and equipment	5790	688
Income from operating activities	**144,951**	**98,743**
Interest expense	(7,629)	(7,530)
Interest income	6,531	3,655
Currency transaction (loss)/gain	(1,870)	5,328
Other expenses	55	(364)
Income before income taxes	**142,038**	**99,832**
Income tax expense	(37,228)	(21,440)
Net income	**104,810**	**78,392**
Basic earnings per share of common stock (US dollars)	**0.75**	**0.58**
Diluted earnings per share of common stock (US dollars)	**0.75**	**0.57**

Our total dollar-expressed revenues increased by US $188.8 million, or 28.0%, to US $862 million for the 2010 Interim Period from US $673.2 million in the comparable 2009 period.

The financial results of operations in US dollars for the 2010 Interim Period were influenced by several factors including ruble appreciation (the six months 2010 average US dollar exchange rate was slightly over 30 rubles as compared to slightly over 33 rubles in the respective 2009 period, a percentage change of 9.1%), an increase in our number of meters drilled and an integration of the new workover businesses. Revenue from offshore operations also contributed to total revenue growth during the six months period ended June 30, 2010.

Cost of services

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

	2010	**2009**
Services of subcontractors	208,961	158,697
Materials	102,482	112,137
Wages and salaries	159,310	110,985
Fuel and energy	42,221	32,940
Transportation of employees to drilling fields	11,764	11,553
Leasing and rent	4,247	4,729
Other	26,383	17,981
Total cost of services	**555,368**	**449,022**

Cost of services increased by US $106.3 million, or 23.7%, to US $555.4 million for the 2010 Interim Period from US $449.0 million for the equivalent 2009 period. Cost of services as a percentage of total revenue decreased from 66.7% for the first six months of 2009 to 64.4% for the 2010 Interim Period. We believe the improvement of the margin was primarily attributable to sustained cost control efforts by management.

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 2010 and 2009. For the 2010 Interim Period, services of subcontractors were US $209.0 million, or 37.6% of total cost of services, as compared to US $158.7 million, or 35.3% of total cost of services, for the comparable 2009 period. The increase in total dollars expended was primarily a function of the increase in dollar/ruble exchange rate and the increase in the volume of workover services provided by the group during the 2010 Interim Period. The change as a percentage of total cost of services is caused by an increase in transportation costs in the Perm region due to the sale of our own non-core transportation assets to the third party and an increase in the number of turnkey well requests from our customers.

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 the 2010 Interim Period were US $102.5 million, or 18.5% of total cost of services as compared to US $112.1 million, or 25.0% of total cost of services for the respective 2009 period. The significant decrease in both total dollars expended and the percentage of total costs is caused by a change to a different scheme of casing pipe financing instituted by some of our major customers beginning in 2009. Prior to 2009 casing pipe was included in the price of well construction and in cost of sales. In 2009 certain of our major customers chose to finance a portion of their casing pipe and provide it to us. In the 2010 Interim Period, even more of our major customers decided to operate under the new casing pipe financing scheme leading to the continued decrease of material costs as a percentage of total cost of services.

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 2010 Interim Period were US $159.3 million, or 28.7% of total cost of services as compared to US $111.0 million, or 24.7% of total cost of services for the equivalent 2009 period. The significant increase in both total dollars expenses and the percentage of total cost of services were caused by the integration of the new workover and telemetry businesses acquired late in 2009 for which wages and salaries constitute the largest component of cost of services. The total dollar increase was also to a lesser extent attributed to the increase in the dollar/ruble exchange rate.

Fuel and energy costs consist primarily of oil, lubricants and electricity. Fuel and energy costs for the 2010 Interim Period were US $42.2 million, or 7.6% of total cost of services as compared to US $32.9 million, or 7.3% of total cost of services for the 2009 period. 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 mobilisation and rotation of rig crews. Expenses relating to the transportation of employees to field locations for the 2010 Interim Period were US $11.8 million, or 2.1% of total cost of services as compared to US $11.5 million, or 2.6% of total cost of services for the comparable 2009 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 2010 Interim Period were US $4.2 million, or 0.8% of total cost of services as compared to US $4.7 million, or 1.1% of total cost of services for the 2009 period. The decrease in total dollars expended is primarily a function of a decrease in the number of drilling rigs we have under lease. The percentage of total cost of services change is not considered material.

The remaining portion of our cost of services, which we categorise as "other", includes current repair expenses for fixed assets; license fees; insurance expenses; safety and environmental expenses; and maintenance expenses. Other expenses amounted to US $26.4 million or 4.8% of our total cost of services for the 2010 Interim Period, as compared to US $18.0 million or 4.0% of our total cost of services for the comparable 2009 period. The increase in the total amount is primarily caused by the change in the dollar/ruble exchange rate and by the integration of new workover businesses purchased in late 2009. The increase in a percentage of total cost of services is considered immaterial.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by US $10.7 million to US $54.7 million for the 2010 Interim Period, as compared to US $43.9 million for the 2009 period. As a percentage of total revenues, selling, general and administrative expenses amounted to 6.3% and 6.5% for the 2010 Interim Period and the comparable 2009 period, respectively. The change as a percentage of total revenues is not material.

Taxes other than income taxes

Taxes other than income tax include various local taxes, such as social tax, personal income tax, property tax, transport tax and others. Taxes other than income taxes increased by US $13.3 million to US $45.7 million for the 2010 Interim Period as compared to US $32.4 million for the respective 2009 period. The increase in taxes other than income taxes was primarily attributable to the integration of the new workover businesses and an increase in the dollar/ruble exchange rate. As a percentage of revenue, taxes other than income taxes increased to 5.3% during the Interim Period from 4.8% for the comparable 2009 period. This difference is mostly attributable to the change in the Russian tax law and the recent adjustment in the formula for social contributions calculations.

Depreciation

Depreciation increased by US $17.3 million to US $67.1 million for the 2010 Interim Period as compared to US $49.8 million for the respective 2009 period. As a percentage of revenues, the depreciation increased to 7.8% from 7.4% for the 2010 Interim Period. The total dollar increase was mostly caused by the depreciation on the equipment and machinery acquired with the purchase of workover and telemetry businesses late in 2009 and by an increase in the dollar/ruble exchange rate. The increase as the percentage of total revenues was primarily the result of the significant capital expenditures in PP&E during the past 3 years, particularly the acquisition of additional drilling equipment and new drilling rigs that were placed into service in 2009 and in the 2010 Interim Period.

Disposal of property, plant and equipment

Gain on the disposal of property, plant and equipment increased by US $5.1 million to US $5.8 million for the 2010 Interim Period as compared to US $0.7 million for the equivalent 2009 period. This significant increase was primarily due to a realized gain on the sale of non-core transportation assets in the Perm region during the 2010 period.

Income from operating activities

Income from operating activities increased by US $46.2 million to US $145.0 million for the 2010 Interim Period, as compared to US $98.7 million for the comparable 2009 period. The increase in total dollars is primarily due to sustained cost control efforts. As a percentage of revenues, income from operating activities increased from 14.7% for the respective 2009 period to 16.8% for the 2010 Interim Period. This percentage increase is primarily due to percentage of total revenues decrease in cost of services as described above.

Interest expense

Interest expense increased by US $0.1 million to US $7.6 million for the 2010 Interim Period as compared to US $7.5 million for the equivalent 2009 period. The change is not considered material.

Income before income taxes

Income before income taxes increased by US $42.2 million to US $142.0 million for the 2010 Interim Period, as compared to US $99.8 million for the respective 2009 period. The increase in income before income taxes was attributable to the factors described in more detail above.

Income tax expense

Income tax expense increased by US $15.8 million to US $37.2 million for the 2010 Interim Period, as compared to US $21.4 million for the comparable 2009 period. In dollar terms, the increase in income tax expense was primarily attributable to the increase in our income. Our effective tax rate increased to 26.2% in the 2010 Interim Period from 21.5% in the comparable 2009 period primarily due to a 5% foreign withholding tax on certain intercompany dividends declared and paid in the amount of RUR 5.0 billion during the Interim Period. Based on current tax laws, we expect our effective corporate income tax rate to be approximately 23% in the future.

Net income

As a result of the foregoing factors, net income increased by US $26.4 million to US $104.8 million for the 2010 Interim Period, as compared to US $78.4 million for the comparable 2009 period.

Overview of financial situation as of June 30, 2010 and liquidity

Our balance sheet and cash flows remain strong. Our Interim Period 2010 financial situation highlights include:

- Cash and cash equivalents as of June 30, 2010 was US $383 million a decrease of US $51 million as compared to cash and cash equivalent balance of US $434 million as of December 31, 2009;
- Our debt as of June 30, 2010 decreased to US $164 million as compared to US $182 million debt balance as of December 31, 2009;
- During the Interim Period of 2010 we paid dividends in the amount of US $213 million including a US $179 million special dividend on a treasury share sales transaction and a US $34 million dividend resulting from our successful 2009 operations;
- Net cash position (cash reduced by all debt) was US$ 219 million as of June 30, 2010 (December 31, 2009 net cash position was US $252 million);
- Capital expenditures for six months ended June 30, 2010 were US $119 million including changes in restricted cash as compared to US $66 million incurred during the corresponding period of 2009;

Accounts receivable

Accounts receivable increased by US $34.8 million to US $225.9 million as of June 30, 2010, from US $191.1 million at the beginning of the Interim Period. The increase in total dollars is primarily due to seasonal fluctuations of the revenue. Expressed as the number of days outstanding, our trade receivable balance increased from approximately 50.7 days at the beginning of the period to approximately 53.0 days at the end of the period (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, increased by US $12.5 million from US $110.0 million at the beginning of the Interim Period to US $122.5 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 the Interim Period was approximately 226.3 days, up from 175 days at the beginning of 2010, when expressed in ruble terms. This increase in turnover days is primarily attributable to seasonal fluctuations applicable to our drilling business. The increase in the balance as of June 30, 2010 is due to an increase in lower turnover items necessary for the summer drilling campaign.

Liquidity and capital resources

The Company’s primary sources of liquidity are cash generated from operating activities and debt financing. The Company’s plan going forward is to finance its capital expenditures, interest payments and dividends primarily out of operating cash flows as well as to finance a portion of its capital expenditures through 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 month periods ended June 30, 2010 and 2009 (in thousands of US dollars, unaudited):

	2010	**2009**
Net cash provided by operating activities	109,599	168,931
Net cash used in investing activities	(134,199)	(64,283)
Net cash used in financing activities	(18,673)	(103,410)

Operating activities

Net cash provided by operating activities amounted to US $109.6 million for the period ended June 30, 2010, as compared to US $168.9 million for the six month ended June 30, 2009. This decrease in cash flows provided by operating activities is principally due to a net negative change in the components of operating assets and liabilities for the 2010 Interim Period compared to the equivalent 2009 period. The most significant factor contributing to this change is an increase in accounts receivable and inventory attributed to the overall increase in the volume of the drilling services during the 1H2010 as compared to the contraction of the volume during the 1H2009. Another factor causing the growth in accounts receivable is our capacity to drill ahead of the schedule.

Investing activities

Net cash used in investing activities amounted to US $134.2 million for the period ended June 30, 2010, as compared to US $64.3 million for the comparable six month period of 2009. The increase is mostly attributable to our desire to capitalize on the growth opportunities in our markets by significantly increasing our investments in new property, plant and equipment for new projects as well as acquiring new businesses to diversify and expand our service lines.

Financing activities

Net cash used in financing activities amounted to US $18.7 million for the 2010 Interim Period, as compared to net cash used of US $103.4 million for the respective 2009 period. During both periods, dividends were paid and principal repayments of long term debt were made. The primary difference between the periods is the result of principal repayments of short term debt and purchase of treasury stock in the six month period of 2009 as opposed to the sale of all the treasury stock in the 2010 Interim Period and payment of a special dividend in the approximate amount of the gain generated on the Company's repurchased GDRs. For further details on the transaction, refer to section *Overview of other matters.*

Liquidity

The table below shows our cash and cash equivalents for the period ended June 30, 2010 and the year ended 2009 (in thousands of US dollars, unaudited):

	2010	**2009**
Short-term deposit Russian rubles	155,531	115,789
Short-term deposit US dollars	135,974	212,485
Cash held in banks other currencies	54,481	60,000
Cash held in banks - Russian rubles	36,895	44,110
Other	289	1,340
Total cash and cash equivalents	**383,170**	**433,724**

Our cash flow in the short term can be negatively affected by the level of expenditures we are required to make in the fourth and first quarter of each year to mobilise our rigs, crews and equipment to drilling sites.

Capital expenditures

Our business is capital intensive and expenditures are primarily required to (i) purchase new drilling rigs and other equipment and (ii) upgrade and modernise the technical characteristics of our existing drilling rigs and equipment. For the period ended June 30, 2010 and for the year ended December 31, 2009 advances outstanding for property, plant and equipment amounted to the following (in thousands of US dollars, unaudited):

	2010	**2009**
Advances given for property, plant and equipment	8,703	15,779

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 for the above described periods (in thousands of US dollars, unaudited):

	2010	**2009**
Construction in progress	41,230	73,997

As of June 30, 2010, the Company had on deposit restricted cash of approximately US $61.7 million to secure letters of credit opened for the purpose of purchasing new drilling rigs to be delivered in 2010 - 2011.

Capital resources

For the period ended June 30, 2010 and for the year ended December 31, 2009 our short-term and long-term debt amounted to the following (in thousands of US dollars, unaudited) (please see our 2010 Interim Consolidated Financial Statements and the accompanying notes for more detail):

	2010	**2009**
Short-term debt and current portion of long-term debt	37,432	31,796
Long-term debt	126,470	150,379

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 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. 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 realized by the Group during its buy-back program. Refer to next paragraph for further details.

Treasury shares

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 719 thousand of these shares to our officers under the Incentive Share Plan.

In April 2010 the remaining treasury shares 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 realized 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 fully 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 Incentive Share Plan.

The calculation of earnings per share for the first six months of 2009 and 2010 was as follows:

	2010	**2009**
Net income available for common stockholders	104,810	78,392
Weighted average number of outstanding shares	139,395,511	135,814,029
Basic earnings per share of common stock (US dollars)	0.75	0.58
Contingent shares of stock incentive program	588,585	983,494
Weighted average number of outstanding shares, after dilution	139,984,096	136,797,523
Diluted earnings per share of common stock (US dollars)	0.75	0.57

Related party transactions

Shareholder loans

In the period from November 2006 through March 2007, the Company entered into loan agreements with its shareholders to partially fund the investment program of our onshore drilling services division and the purchase of our offshore drilling services business. The aggregate principal amount of such loans was US $70.0 million. The loans mature on December 31, 2011 and incur interest at the rate of 8.6% per annum. Interest expense of USD 3 million and USD 3 million was recognised and paid on these loans during the 6 months ended June 30, 2010 and 2009, respectively. The loans are denominated in US dollars. Management believes the terms of these loans are no less onerous than those which would have been negotiated in an arms-length negotiation.

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 2010 and 2009 the Firm billed EDC for costs and expenses of US $0.7 million and US $0.5 million respectively. All services were billed at a discount to the Firm's normal billing rates while expenses were billed at their actual cost. In addition the amounts paid to The Stinemetz Law Firm include considerable third party expenses and charges for the services of other lawyers. Mr. Stinemetz is not otherwise paid for his services as the Company's general counsel. Management believes the amounts paid for these legal services are no 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 Financial Performance

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. For the period ended June 30, 2010, each of our active drilling crews drilled on average approximately 36,735 meters as compared to 39,537 meters for the period ended June 30, 2009, computed on an annualised basis. This apparent decrease in productivity per crew for the first half of 2010 was caused by a change in our clients served and in the mix of services provided to those clients. The major contributing factors were as follows:

- Our average well depth in West Siberia increased by approximately 100 meters in 2010 versus 2009. Deeper wells take disproportionally more time to drill;
- Our average well design was somewhat more complicated in 2010 than 2009 with larger step outs and longer horizontal sections. Such wells take longer to drill than wells of a more simple design;
- Our newer clients tend to develop their oil fields with smaller drilling pads. Smaller pads require more frequent moves which decreases overall drilling efficiency;
- We began to work with more new clients in 2010 than in 2009. It generally takes time with new clients to optimize efficiency;
- We drilled twice as many exploration wells in 2010 than in 2009. Exploration wells are inherently less efficient to drill than production wells;

- The beginning of 2010 was much colder than the corresponding period of 2009, resulting in lost drilling time. For more information on seasonality, refer to the paragraph on “Seasonality” below.

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 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. As demand for the drilling services recovers in Russia and as we see potential for expansion in geographic areas outside of the CIS we have placed orders for seven new rigs for delivery in 2010/11. Our drilling fleet as of June 30, 2010 consisted of 208 land drilling rigs and one offshore jack-up drilling rig in the Caspian Sea, as described above. At the end of the first half of 2010 we believed we had sufficient capacity with the addition of the new rigs to our drilling fleet and our increased drilling efficiency to drill over 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. For example, during January and February 2010, 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 65 days, which was equivalent to the loss of use of one drilling crew 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 the first half of 2010 , CDU TEK data indicated that overall Russian drilling volumes increased by 14% as compared to the corresponding period of 2009, while oil production increased by 2.9% during first six months of 2010 versus the corresponding period of 2009. This increase in production was primarily attributable to new Greenfield production that came on-stream in 2009, that compensated for a decrease in Brownfield oil production. 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 2009the seasonal pattern was more modest, but the first six months of 2010 were characterized by similar seasonality trends as in 2008.

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

For example, during the first six months of 2010, we drilled 171 thousand meters utilizing the horizontal drilling technique, while in the corresponding period of 2009 our horizontal drilling operations were 166 thousand meters.

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

Our assessment of risks has not changed materially since the publication of 2009 Management Discussion and Analysis on April 12, 2010. Please refer to our 2009 Management Discussion and Analysis available on our website, for a thorough discussion of our risk assessment.

Outlook

During the second half of 2009 the oil prices started to recover from their precipitous fall during the first half of 2009 and recovered and essentially stabilized during the first half of 2010. 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.

Our guidance for the 2010 remains unchanged and we expect our full year 2010 drilling volumes to increase by at least 5% and be close to four million meters. In response to this expected increase in drilling volumes we are increasing our capital expenditures budget for 2010 as compared to 2009. We expect our capital expenditures for the year to be in the range of US $200- US $250 million including acquisition of seven new rigs for operations onshore Russia and outside the CIS, but excluding any potential acquisitions. We continue to focus on payroll costs, inventory costs and the cost of our third party services.

Against this background the company will continue to identify 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.

We will further concentrate our efforts on increasing our customer base. Strong performance in our core areas has opened new markets and potential clients to us in Russia and the CIS. In 2009 we provided drilling services to new clients in Russia including RussNeft and Samara-Nafta. Further in 2010 we expanded our customer base with important contracts with Pechoraneft and Rusvietpetro. Contract for drilling services with TNK BP signed in 2010 were also a significant achievement for us. We continue to differentiate ourselves from our competitors in our domestic markets to win work with new clients and in developing basins. We are aggressively targeting new international markets in the Middle East, initially in Iraq.

Many commentators believe Russian drilling volumes will continue to increase in 2010 and later years in response to the aging of oil fields, especially in Western Siberia. During the first six months of 2010 Russian drilling volumes increased by 14% over the comparable 2009 period. Our market share slightly decreased during the first six months of 2010 to 24% caused by aggressive drilling programs by in-house drilling divisions of certain exploration and production companies. We expect to maintain our current market share during the rest of the year. We are determined to resume the growth of our market share in Russia, both organically and through targeted acquisitions.

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

Lastly, we continued our operations on LUKOIL’s Yuri Korchagin field platform where we spudded the forth well. This multi-year development started in the fourth quarter of 2009 and utilizes 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 continue to be a year of growth on all fronts and expect to maintain solid performance through increasing sales and improving margins in most areas of our business.