

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

The following report represents management's discussion and analysis of financial condition and results of operations for the six month period ended June 30, 2009 (the Interim Period) and is intended to help our shareholders and other users of our financial statements better understand our operations and attendant financial results and current financial condition. This information is provided as a supplement to, and should be read in conjunction with our reviewed 2009 Interim Consolidated Financial Statements and the accompanying notes, prepared in accordance with US GAAP. As used in this report, "Company", "we," "us," "our" and "EDC" means Eurasia Drilling Company Limited and, where the context requires, includes our subsidiaries.

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

Nature of operations

Eurasia Drilling Company Limited is the largest provider of onshore drilling services in Russia, as measured by the number of metres drilled, providing onshore integrated well construction services and workover services. In addition, we provide offshore drilling services in the Caspian Sea. We offer our onshore integrated well construction and workover services to local and international oil and gas companies primarily in Russia and our offshore drilling services to Russian and international oil and gas companies in the Russian, Kazakh and Turkmen sectors of the Caspian Sea.

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

Our business is currently organised within two main business segments, onshore and offshore drilling services. Our onshore drilling services include the construction of production, exploration and appraisal oil and gas wells and certain other types of wells, including vertical, deviated and horizontal wells, ranging from a depth of approximately 1,200 to more than 5,000 metres. Through the onshore division we also provide a wide range of workover services, including sidetracking. We provide our onshore drilling services in several major oil & gas regions of the Russian Federation, including Western and Eastern Siberia, Timan-Pechora and the Volga-Urals. Beginning late 2007 we began providing onshore drilling services in Kazakhstan. Our offshore division constructs oil and gas exploration and production wells in waters with depths of up to 45 metres. We provide our offshore drilling services with our jack-up rig, the *ASTRA*. In addition to LUKOIL, our customers include a

number of the major Russian and international oil and gas companies operating in Russia and the Caspian Sea, such as Rosneft, Gazpromneft, TNK-BP, Total, Shell, KazMunaiGaz affiliates, PetroResource, Samara-Nafta and Naryanmarneftegaz, a joint venture between LUKOIL and ConocoPhillips.

Overview

Our Interim Period 2009 operating results include:

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

Demand for drilling services depends on a variety of factors, including worldwide demand for oil and gas, the ability of OPEC to set and maintain production levels and pricing, the level of production of non-OPEC countries and the policies of the various governments regarding exploration and development of their oil and gas reserves.

Our results of operations depend on the levels of activity in Russia and countries of the Caspian Sea, and the prices of crude oil and natural gas in Russia. While world prices for crude oil are characterised by significant fluctuations, primarily due to the global balance of supply and demand, Russian natural gas prices are regulated by the Russian government. While Russian natural gas prices have increased in recent years, and are expected to continue to rise to a level closer to parity with export netbacks, they are still significantly below world levels. To date most of our drilling activities have been in oil provinces rather than gas provinces. This business mix may slowly change over time if we obtain new clients whose activities are more heavily weighted to drilling natural gas wells. The results of our workover operations tend to be less sensitive to the fluctuations in crude oil and natural gas prices, as our clients require such services both during periods of high and low oil prices.

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

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

The productivity of our crews was improved through the continuous implementation and utilisation during 2009 of more advanced drilling technologies and the application of new standards to our drilling operations. Advanced crew training and application of innovative technologies allowed us to both improve Rates of Penetration (ROP) and reduce Non-Productive Time (NPT). Examples of technological advancements included wider usage of Polycrystalline Diamond Compact (PDC) drill bits, introduction of new generation drilling motors, optimisation of bottom-hole-assemblies (BHAs) and mud programs/properties, and real-time drilling navigation. The use of top-drives and four-step drilling mud cleaning systems on our high specification rigs further improved ROP and efficiency in the increasingly more challenging wells we are drilling.

Our success depends on our ability to charge clients market prices for our onshore and offshore drilling and other services. The LUKOIL Framework Agreement, which remains in effect through the end of 2009, established a pricing adjustment formula applicable to the onshore drilling services we provide to LUKOIL. Such pricing formula effectively limits our ability to adjust the prices related to our onshore drilling services for LUKOIL in order to reflect fluctuations in the market prices occurring prior to the following annual price adjustment. However, we consider that the prices at which we provide services pursuant to the LUKOIL Framework Agreement are acceptable given the volume of services provided over the course of each year. In addition, we believe that the contracts we enter into with our other customers provide us with greater flexibility to adjust their contract prices to better conform to current market levels. During the past six month period, we continued to diversify our customer base, with non-LUKOIL metres drilled significantly increasing from 24.3% during the 2008 interim period to 36.7% during the 2009 Interim Period (in revenue terms, non-LUKOIL business grew from 26.5% during the 2008 interim period to 31.8% during the 2009 Interim Period).

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

Reconciliation of Net Income to EBITDA

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

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

Free cash flow

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

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

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

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

Outlook

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

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

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

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

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

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

Results of operations

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

Revenues

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

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

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

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

Cost of services

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

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

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

We generally subcontract with third parties to provide us with certain services in our onshore division in instances where we do not perform these services ourselves. In our onshore division, services contracted from third parties include the cost of subcontracting for technological transportation services; preparatory services; well facility services; construction of well pads and access roads; petrophysical services; well services; drilling motor and drilling navigation services; cementing services; and drilling bit services. Services of subcontractors were the largest component of our cost of services for the first six months of 2009. For the 2009 Interim Period, services of subcontractors were US \$159 million, or 35.3% of total cost of services, as compared to US \$212 million, or 29.7% of total cost of services, for the equivalent 2008 period. The decrease in total dollars expended is primarily a function of the decrease in the dollar/ruble exchange rate. The percentage increase was primarily a result of a decrease of costs of materials in percentage of total cost of services (see explanation below).

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

Employee wages and salaries include costs of our personnel directly engaged in providing onshore and offshore drilling and other services. Employee costs include amounts we pay in support of our private employee insurance and medical funds. Such expenses do not include

contributions which we make to a private pension fund or social taxes we pay to the Russian government. Wages and salaries for the 2009 Interim Period were US \$111 million, or 24.7% of total cost of services as compared to US \$160 million, or 22.4% of total cost of services for the equivalent 2008 period. The decrease in total dollars expended is in line with the overall decrease in the dollar/ruble exchange rate. The increase in the percentage of total cost of services was due primarily to the overall reduction in the total cost of services caused by the change in treatment of casing pipe costs by some of our major clients, as discussed above.

Fuel and energy costs consist primarily of oil and lubricants. Fuel and energy costs for the 2009 Interim Period were US \$33 million, or 7.3% of total cost of services as compared to US \$54 million, or 7.6% of total cost of services for the 2008 period. The percentage change is not material.

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

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

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

Selling, general and administrative expenses

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

Taxes other than income taxes

Taxes other than income taxes decreased by US \$13 million to US \$32 million for the 2009 period as compared to US \$46 million for 2008 comparable period. The decrease in taxes other than income taxes was primarily attributable to the change in the dollar/ruble exchange rate and to a reduction in our labour force in 2009. Taxes other than income tax include various local taxes, such as property tax, education tax, police tax, animal protection tax and small nation's tax. As a percentage of revenue, taxes other than income taxes increased to 4.8% during the Interim Period from 4.4% for the comparable 2008 period. This difference is

not considered material and is mostly attributable to the change in the treatment of casing pipe by our clients, as discussed above.

Depreciation

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

Disposal of property, plant and equipment

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

Income from operating activities

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

Interest expense

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

Income before income taxes

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

Income tax expense

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

Net income

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

Accounts receivable

Trade accounts receivable decreased by US \$13 million to US \$218 million as of June 30, 2009, from US \$231 million at the beginning of the Interim Period. The decrease is primarily

due to the change in the dollar/ruble exchange rate. In ruble terms the balance was approximately 1% higher at the end of the Interim Period than at the beginning of the period. Expressed as the number of days outstanding, our receivable balance increased from approximately 47.5 days at the beginning of the period to approximately 55.9 days at the end of the period, when expressed in ruble terms. This difference is due to normal fluctuations in the billing cycle for the two periods at issue.

Materials for drilling and workover

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

Liquidity and capital resources

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

Cash flows

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

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

Operating activities

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

Investing activities

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

Financing activities

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

Liquidity

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

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

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

Capital expenditures

Our business is capital intensive and expenditures are primarily required to (i) purchase new drilling rigs and other equipment and (ii) upgrade and modernise the technical characteristics of our existing drilling rigs and equipment. For the period ended June 30, 2009 and for the year ended December 31, 2008 advances outstanding for property, plant and equipment amounted to the following (in thousands of US dollars, unaudited):

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

This amount represents cash advances for property, plant and equipment not yet received.

The table below presents the amounts invested in construction, which is still in progress for the above described periods (in thousands of US dollars, unaudited):

	2009	2008
Construction in progress	118,966	70,433

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

Capital resources

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

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

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

Other

Off-balance sheet arrangements

The Company does not have off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on its financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Related party transactions

Shareholder loans

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

Capital lease obligations

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

Legal services

The Company's General Counsel, Douglas Stinemetz, is a partner with The Stinemetz Law Firm. During the first six months of 2008 and 2009 the Company paid the Stinemetz Law Firm US \$0.7 million and US \$0.5 million respectively. All services were billed at a discount to the Firm's normal billing rates while expenses were billed at their actual cost. In addition the amounts paid to The Stinemetz Law Firm include considerable third party expenses and charges for the services of other lawyers. Mr. Stinemetz is not otherwise paid for his services as the company's general counsel. Management believes the amounts paid for these legal services are no less onerous than those which would have been negotiated in an arms-length negotiation for a similar level of service and expertise.

Earnings per share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the reporting periods. Diluted Earnings per Share reflect shares that may be issued contingent upon stock price performance under the terms of the Incentive Share Plan.

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

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

Dividend policy and year-end 2008 dividend declaration

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

In August 2007, we adopted a dividend policy according to which we expect to declare and pay dividends each year based on the Company's earnings and the cash needs of the business. Consistent with this policy, on December 16, 2008, we declared a dividend of US \$0.25 per share, which was paid on January 30, 2009, to shareholders of record as of January 15, 2009.

Certain factors affecting our Results of Operations

Changes in crude oil and natural gas prices

The prices of crude oil and natural gas in Russia can have a significant impact on our results of operations. World prices for crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand. However, Russian natural gas prices are regulated by the Russian government. While Russian natural gas prices have increased in recent years, and are expected to continue to rise to a level closer to parity with export netbacks, they are still significantly below world levels. A substantial or an extended decline in crude oil and natural gas prices could result in lower capital expenditures by our customers, and consequently, a reduction in the number of wells to be drilled by oil and gas companies. Such a pattern of sequential downward and upward changes of our customers' capital expenditures has caused the results of our drilling operations to vary significantly from year to year during the life of the Company. The results of our workover operations tend to be less sensitive to the fluctuations in crude oil and natural gas prices, as our clients require such services to be performed with respect to their existing wells, which may require workovers both during periods of high and low oil prices.

Productivity

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

Operating capacity

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

Seasonality

Our revenue from onshore and offshore drilling services can be negatively affected by severe winter weather conditions in certain regions of Russia that make oil and gas operations difficult to non-operational during that season. For example, during January and February 2006, Russia experienced severely cold temperatures of approximately -45 degrees C in certain regions where we operate and the lost drilling time during such period amounted to approximately 90 days, which was equivalent to the loss of use of three drilling crews for one calendar month, and which contributed to delays in the mobilisation of our equipment and service commencement dates. Our revenue from onshore drilling services may also be negatively affected by winter thawing because drilling rigs, equipment and materials situated in certain regions can only be transported during winter when the ground is sufficiently frozen to create access roads. As a result, a portion of our business activity in the fourth and first quarter of each year is devoted to transportation of drilling rigs, equipment and materials and we experience a decrease in revenues while continuing to incur costs. If we fail to complete a drilling contract on time or are unable to move our equipment due to adverse weather conditions, our ability to timely commence drilling at another site may be impeded. However, the effect of severe weather conditions on our operations depends on the specific

type of service being provided. For instance, our onshore exploration drilling services are most affected by adverse weather conditions, as our drilling rigs, equipment, materials and crews that are required for such services are mobilised to remote locations accessible only by winter roads or helicopters. On the other hand, onshore production drilling services tend to be less affected by adverse weather conditions due to the cluster drilling method utilised by us, which involves drilling multiple wells from a single drilling pad. With respect to such drilling method, our operations may be temporarily disrupted by adverse weather conditions in the event we are unable to operate our rigs or mobilise required supplies to rig sites. With respect to our offshore division, we are generally unable to perform drilling services in the Russian and Kazakh sectors of the Caspian Sea during winter months due to the presence of ice.

Market trends

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

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

Change in mix of services

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

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

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

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

Price optimisation

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

Quantitative and qualitative disclosure about market risk

Interest rate risk

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

Our exposure to market risk for changes in interest rates relates primarily to our long-term and short-term debt. The table below presents scheduled long-term debt maturities in US dollars and related weighted-average interest rates for each of the 6-month periods ended June 30 relating to debt obligations as of June 30, 2009 (in millions, except interest rate percentages, unaudited):

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

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

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

Currency risk

We are exposed to foreign currency exchange rate risks. The currency giving rise to these risks is primarily the Russian ruble. We use the Russian ruble for the majority of our operations, while the US dollar is our reporting currency. Foreign exchange gains and losses result from converting monetary and certain non-monetary assets and liabilities denominated in the Russian ruble into US dollar amounts at each balance sheet date. This includes any borrowings in a foreign currency. As of December 31, 2008, we had US \$186.1 million of a total of US \$256.1 million of our long and short-term debt, including lease obligations, denominated in the Russian ruble. As of June 30, 2009 we had US \$115.6 million of a total of US \$185.6 million of our long and short term debt, including lease obligations, denominated in the Russian ruble. In addition, the results of our operations are impacted by transactions entered into in currencies other than the Russian ruble, and a fluctuation in exchange rates will result in a change in the recognised revenues and expenses associated with such transactions. Furthermore, while the majority of our revenues are denominated in the Russian ruble, some of our costs, including those associated with purchases of foreign manufactured land rigs, are denominated in the US dollar and other currencies. Any significant foreign currency exchange rate fluctuations (both short- and long-term) could have a material adverse effect on our business, financial condition and results of operations.

Concentration of credit risk

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

Legal proceedings

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

Significant accounting policies

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