Discussion and Analysis
of Financial Condition and Results of Operations

The following Discussion and Analysis of Financial Condition and Results of Operations for the six month period ending June 30, 2008 (the Interim Period) is intended to help our shareholders understand the results of our operations and our financial condition. This information is provided as a supplement to, and should be read in conjunction with our Reviewed Consolidated Financial Statements and the accompanying notes, prepared in accordance with US GAAP and included elsewhere in this document. As used in this Discussion, “Company”, “we,” “us,” “our” and “EDC” means Eurasia Drilling Company Limited and, where the context requires, includes our subsidiaries.

Nature of Operations

EDC is the largest drilling contractor in Russia, providing onshore integrated well construction services and workover services. In addition, we provide offshore drilling services in the Caspian Sea. We offer our onshore integrated well construction services and workover services to local and international oil and gas companies primarily in Russia and our offshore drilling services to Russian and international oil and gas companies in the Russian, Kazakh and Turkmen sectors of the Caspian Sea.

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 LUKOIL. In December 2006, we entered the offshore drilling business by acquiring the offshore drilling business of LUKOIL, which included “Astra”, a floating jack-up drilling rig located in the Caspian Sea. According to Douglas-Westwood, as at December 31, 2006, we had an estimated market share of approximately 20.3% of the onshore drilling services market in Russia, as measured by number of meters drilled. As of December 31, 2007, we estimate that our market share reached 22.4%. As of June 30, 2008 we estimate that our market share reached 26.0% based on the number of meters drilled.

Our business is currently organized within two main divisions, 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 meters. In addition, through the onshore division we provide a wide range of workover services, including sidetracking. We provide our onshore drilling services in several major onshore oil and gas regions of the Russian Federation - Western Siberia, Timan-Pechora and Volga-Urals - and have recently begun to provide onshore drilling services in Kazakhstan and Eastern Siberia on a limited basis. Our offshore division constructs oil and gas exploration and production wells in waters with depths of up to 45 meters. We provide our offshore drilling services with our jack-up rig, the Astra. 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 and Naryanmarneftegas, a joint venture between LUKOIL and ConocoPhillips.

Overview

Our Interim Period 2008 financial and operating results include:

- revenues increasing by 53.0% to US $1,030 million for the period;
- net income growing by 68.9% to US $133 million for the period (despite increases in some cost categories);
- earnings before interest, taxes, depreciation and amortization (EBITDA) improving by 51.8% to US $206 million;
- earnings per share increasing, for the equivalent period, from US $0 .63 in 2007 to US $.90 in 2008;
- net cash provided by operating activities increasing to a record US $ 94 million for the period;
- market share growing, (based on meters drilled) from 22.4% to 26.0% of the market at the end of the period (all organic growth);
- increasing our meters drilled by 29.5% from 1,533,330 for the 2007 interim period to 1,985,609 for the 2008 Interim Period;
- an increase in total number of drilling rigs to 198 from 195 at the beginning of the period;
- completion of shipyard upgrading work on the Astra—certifying it for uninterrupted offshore work for another five year period; and
- progress on our previously announced contract with Le Tourneau Technologies Inc, to fabricate and assemble drilling rigs, custom designed for the Russian topography, climate and drilling environment, at an assembly and fabrication plant in Kaliningrad.

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 level of prices of crude oil and natural gas in Russia. While world prices for crude oil are characterized by significant fluctuations, determined by the global balance of supply and demand, Russian natural gas prices are regulated by the Russian government. While Russian natural gas prices have increased in recent years, and are expected to continue to rise to a level closer to parity with export netbacks, they are still significantly below world levels. 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 workover both during periods of high and low oil prices.

During the Interim Period our business continued to benefit from favorable market conditions resulting primarily from high commodity prices and increased demand. This increased demand was met by adding drilling crews, improving the productivity of our existing drilling crews and utilizing a greater number of drilling rigs.

We increased the number of drilling crews to 124, as compared to 112 at the end of 2007, and the number of drilling rigs to 198, as compared to 195 at the beginning of the Interim Period. As a result of these increases and also an increase in overall drilling efficiency, we increased the number of meters drilled by 29.5% to 1,985,609 meters, as compared to 1,533,330 meters in the equivalent period of 2007. In addition, EDC drilled its first million meters in 102 days, as compared to 125 days in 2007.

The productivity of our crews was improved due to the recent implementation and utilization of more advanced drilling technologies and the application of new standards to our drilling operations. The former include the use of Polycrystalline Diamond Compact drill bits in conjunction with modern drilling motors, drilling with real-time drilling navigation, the use of top-drives and four-step drilling mud cleaning systems. The latter include, for example, an increase in allowed deviations of vertical wells and the use of drilling mud that is more suitable for the geological conditions in which we operate.

Our revenue growth 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 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 business increasing from 18.2% during the 2007 interim period to 26.5% during the 2008 Interim Period.

At the same time, we continue to face cost pressure as a result of increases in labor costs, costs of services contracted to subcontractors, such as, for example, construction of well pads and access roads and petrophysical services, and prices for materials essential to our operations. Cost of services increased by US $253 million, or 54.0%, to US $721 million for 2008 Interim Period (US $468 million for the 2007 period). Cost of services as a percentage of total revenue increased slightly from 69.5% during the 2007 interim period to 69.9% in the 2008 Interim Period. Thus, these labor and vendor cost increases, while meaningful, were acceptable given the overall increase in revenue during the 2008 Interim Period.

In response to an extremely tight rig supply market and with a desire to enhance the quality and versatility of our assets, and lower our operating costs, we continued to advance our previously announced contract with Le Tourneau Technologies Inc, to produce drilling rigs custom-designed for the Russian topography, climate and drilling environment at an assembly and fabrication plant in Kaliningrad. This facility will provide EDC with guaranteed access to advanced, fast moving, heavy lift rigs at the lowest possible cost. We expect our first rig to be completed and commissioned by early 2009 with up to ten rigs a year to follow once full production is reached.

Outlook

The price of oil remains at world record levels but has suffered a pull back in the past few months. Whether this trend will continue is unknown.

Our long-standing business strategy continues to be the active expansion of our operations through acquisitions, expansion in offshore drilling and selective expansion in closely related services, upgrades and modifications and the deployment of our drilling assets in key geographic locations. In 2008 we continued the execution of our active expansion strategy by the following developments and activities:

- expansion of our onshore drilling operations in Kazakhstan and Eastern Siberia, where the oilfield services market is expected to grow at 50% CAGR by 2011 according to Douglas-Westwood;
- strengthening of our position as an offshore drilling services provider in the Russian, Kazakh and Turkmen sectors of the Caspian Sea;
- expansion of our offering a wider range of higher margin drilling and workover services, including sidetracking and horizontal drilling;
- implementation of a fleet-wide modernization program to replace older mud pumps and mud cleaning systems, and to install top drives on the high capacity rigs; and
- evaluation of several potential strategic acquisition targets to expand our fleet within the Russian and Caspian markets. (Nothing has been finalized with respect to these potential targets and may never be.)

During the 2008 Interim period our total capital expenditures were US $115 million which was comparable to US $115 million in the 2007 interim period. The full effect of these capital expenditures will be realized over the next few financial periods.

For the balance of 2008 we will continue to make significant capital expenditures to take advantage of the growing demand for drilling services in our market. The company is focused on identifying growth opportunities and following a disciplined investment policy to capitalize on these opportunities. The Company remains committed to technology leadership and will continue to focus its investments, complemented with strategic acquisitions, on high-value, high-growth opportunities.

Also, we expect to continue to invest in a number of recruitment, retention and personnel development initiatives in connection with the manning of the crews and our efforts to mitigate personnel attrition.

We anticipate a continuation of favorable market conditions for the rest of the year. As a result, we expect strong results in 2008 from our operations as we realize the fruits of our efforts.

Results of Operations

We made considerable progress implementing our strategies during the Interim Period. These actions have resulted in solid financial performance with strong and balanced contribution across all geographies and business lines. The strong performance reflects the extensive modernization and upgrade of our equipment, investment in training and development of our crews, continued improvement of our cost control initiatives and a disciplined approach to developing new business from existing accounts.

Revenues

The following table sets forth a summary of our operating results for and the first six months of 2008 and for the first six months of 2007 (for additional information, please see the accompanying Consolidated Financial Statements):

Consolidated statements of income for the periods ended June 30, 2008 and 2007
(All figures in thousands of US dollars, unless otherwise noted, unaudited)

	2008	2007
Revenues		
Drilling and related services	$1,016,842	$661,231
Other sales and services	13,434	12,225
Total revenues	**1,030,276**	**673,456**
Cost of services	(720,553)	(467,953)
Selling, general and administrative expenses	(56,861)	(37,399)
Taxes other than income taxes	(45,753)	(31,232)
Depreciation	(32,575)	(14,653)
Gain on disposal of property, plant and equipment	91	690
Income from operating activities	**174,625**	**122,909**
Interest expense	(13,730)	(113,994)
Interest income	5,105	626
Currency transaction gain	10,292	403
Other expenses	(855)	(1,665)
Income before income taxes	**175,437**	**108,279**
Income tax expense	(42,766)	(29,734)
Net income	**$132,671**	**$78,545**
Basic and diluted earnings per share of common stock (US dollars)	**0.90**	**0.63**

Total revenues increased by US $357 million, or 53.0%, to US $1,030 million for 2008 from US $673 million in 2007. The results of operations for the 2008 period were primarily influenced by an increase in the volume of drilling services provided by us. For the six month period, we increased the number of meters drilled by 29.5% to 2.0 million meters, as compared to 1.5 million meters for the 2007 period.

Cost of Services

Cost of services includes the following (in thousands of US$):

	2008	2007
Materials	242,729	157,733
Services of subcontractors	212,296	152,594
Wages and salaries	160,355	103,549
Fuel and energy	54,445	27,191
Transportation of employees to drilling fields	19,478	10,947
Leasing and rent	7,339	5,173
Other	23,911	10,766
Total cost of services	**720,553**	**467,953**

Cost of services increased by US $253 million, or 54.1%, to US $721 million for 2008 from US $468 million for the 2007 period. As described more fully below, our cost of services for the 2008 Interim Period were primarily affected by an increase in the volume of drilling services provided by us. However, cost of services as a percentage of total revenue increased slightly from 69.5% in 2007 to 69.9% for the 2008 Interim Period. Despite cost inflation in many areas, we believe the stabilization 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 2008 and 2007 periods. Services of subcontractors for the 2008 Interim Period were US $212 million, or 29.5% of total cost of services, as compared to US $158 million, or 33.7% of total cost of services, for the 2007 period. The increase in total dollars expended is primarily a function of the greater volume of services we provided to our clients. The percentage decrease was primarily a result of a decrease in the relative mix of exploration wells versus production and delineation wells drilled by us on behalf of our clients during the Interim Period.

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 2008 Interim Period were US $243 million, or 33.7% of total cost of services as compared to US $153 million, or 32.6% of total cost of services for the 2007 period. The increase in total dollars expended is primarily a function of the greater volume of services we provided. The percentage change is not material.

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 are required to pay to the Russian government in support of pension, social insurance and medical funds. The rate of contribution depends upon the amount of the salaries, wages and benefits accrued for our employees in the Russian Federation. Such expenses do not include contributions which we make to a private pension fund. Wages and salaries for the 2007 period were US $160 million, or 22.3% of total cost of services as compared to US $104 million, or 22.1% of total cost of services for the 2007 period. The increase in total dollars expended is primarily a function of the greater volume of services we provided which required more trained personnel, and also, a general increase in rates paid our employees in order to reduce turnover and attract the best people in a market where there is high demand for skilled workers. The percentage change is not material.

Fuel and energy costs consist primarily of oil and lubricants. Fuel and energy costs for the 2008 Interim Period were US $54 million, or 7.6% of total cost of services as compared to US $27 million, or 5.8% of total cost of services for the 2007 period. Both of these increases in fuel and energy costs for the Interim Period were, in large part, due to an increase in fuel prices during this period as well as the greater volume of services we provided. Management believes the percentage increase incurred by the Company was felt by every company operating in the Russian oil field service sector.

Costs relating to the transportation of employees to drilling fields primarily include transportation services related to the mobilization and rotation of rig crews. Expenses relating to the transportation of employees to drilling fields for the 2008 Interim Period were US $19 million, or 2.7% of total cost of services as compared to US $11 million, or 2.3% of total cost of services for the comparable 2007 period. The increase in total dollars expended is primarily a function of the greater volume of services we provided, which required fielding more crews. The percentage change is primarily attributable to fuel cost inflation.

Leasing and rent costs consist primarily of the cost of renting drilling equipment. Leasing and rent costs for the 2008 Interim Period were US $7 million, or 1.0% of total cost of services as compared to US $5 million, or 1.1% of total cost of services for the 2007 period. The increase in total dollars expended is primarily a function of the greater volume of services we provided. The percentage change is not material.

The remaining portion of our cost of services, which we categorize as "other", includes current repair expenses for fixed assets; license fees; insurance expenses; safety and environmental expenses; and maintenance expenses. Other expenses amounted to US $24 million or 3.3% of our total cost of services for the 2008 Interim Period, as compared to US $11 million or 2.3% of our total cost of services for the 2007 comparable period. The increase in total dollars expended is primarily a function of the greater volume of services we provided to our clients. The increase in the percentage of Total cost of service for the 2008 Interim Period was primarily due to additional expenses related to our new comprehensive insurance program which became effective as of June 1, 2007 and crew facilities' maintenance expense.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by US $20 million to US $57 million for the 2008 Interim period, as compared to US $37 million for the 2007 period. The increase in total dollars expended is primarily a function of the greater volume of services we provided. As a percentage of total revenues, selling, general and administrative expenses remained stable at 5.5% and 5.6% for 2008 Interim Period and the equivalent period in 2007, respectively.

Taxes Other Than Income Taxes

Taxes other than income taxes increased by US $15 million to US $46 million for the 2008 period as compared to US $31 million for 2007 comparable period. The increase in taxes other than income taxes was primarily attributable to our asset base increase, business growth and an increase in the amount of social taxes payable by us resulting from an increase in the number of employees in 2008. Such taxes other than income tax attributable to business growth included 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 decreased to 4.4% during the Interim Period from 4.6% for the comparable 2007 period. This difference is not considered material.

Depreciation

Depreciation increased by US $18 million to US$ 33 million as compared to US $15 million for the 2007 period. As a percentage of revenues, the depreciation increased to 3.2% from 2.2 % for the 2007 period. Both of these increases in depreciation were primarily the result of an increase in capital expenditures, particularly the acquisition of additional drilling equipment during the last six months of calendar 2007 and during the Interim Period.

Disposal of Property, Plant and Equipment

Gain on the disposal of property, plant and equipment decreased by US $0.6 million to US $0.1 million for the 2008 Interim Period. This difference was primarily due to the disposal of certain non-core assets in the Volga-Urals Region during the 2007 period.

Income from Operating Activities

Income from operating activities increased by US $52 million to US $175 million for the 2008 Interim Period, as compared to US $123 million for the 2007 comparable period. The increase in income from operating activities was primarily attributable to the increase in total volume of services we provided. As a percentage of revenues, Income from operating activities decreased from 18.3% for the 2007 period to 16.9% for the Interim Period. This decrease is primarily due to an increase in depreciation expense and an increase in fuel and energy costs as described above.

Interest Expense

Interest expense decreased US $0.3 million to US $13.7 million for the 2008 Interim Period, as compared to US $14.0 million for the 2007 period. The decrease is primarily attributable to a reduction in our long term debt, funded primarily from the proceeds of our IPO in the fourth quarter of 2007.

Income before Income Taxes

Income before income taxes increased by US $67 million to US $175 million for 2008, as compared to US $108 million for 2007 comparable period. The increase in income before income taxes was primarily attributable to the overall growth of our business.

Income Tax Expense

Income tax expense increased by US $13 million to US $43 million for the 2008 Interim Period, as compared to US $30 million for 2007 period. The increase in income tax expense was primarily attributable to the increase in our income, our effective tax rate decreased slightly from 27.5% in the 2007 period to 24.4% in the 2008 Interim Period due to fewer disallowed expenses in 2008 on a percentage basis. Based on current tax laws, we expect our effective corporate income tax rate to be approximately 27% in the future.

Net Income

As a result of the foregoing factors, net income increased by US $54 million to US $133 million for the 2008 Interim Period, as compared to US $79 million for 2007 period.

Accounts Receivable

Trade Accounts Receivable increased by US $49 million to US $276 million as of June 30, 2008, from US $227 million at the beginning of the Interim Period. The increase is due to the greater volume of services provided by us during the Interim Period. Expressed as the number of days outstanding, our receivable balance decreased from approximately 55.5 days at the beginning of the period to approximately 48.6 days at the end of the period. The decrease is due to the positive effect of our collection efforts during the period.

Materials for drilling and workover

The balance of Materials for drilling and workover, a component of our inventory balance, increased by US $72 million from US $189 at the beginning of the Interim Period to US $261 at the end of the period. This increase was primarily due to an increase in the volume of services provided by us. Expressed as the number of days for the total inventory to turnover, the turnover rate at the end of the Interim Period was approximately 66 days, which was unchanged from the same 66 day figure at the beginning of the period.

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

Cash Flows

The table below shows our net cash flows from operating, investing and financing activities for the six month periods ended June 30, 2008 and 2007 (in thousands of US$--unaudited):

	2008	**2007**
Net cash provided by operating activities	93,979	40,158
Net cash used in investing activities	(113,020)	(111,829)
Net cash provided (used) by financing activities	(11,783)	62,656

Operating activities

Net cash provided by operating activities amounted to US $94 million for the period ended June 30, 2008, as compared to US $40 million for the six months ended June 30, 2007. This increase in cash flows provided by operating activities principally reflects a higher net income of US $133 million for 2008, as compared to US $79 million for the 2007 period.

Investing activities

Net cash used in investing activities amounted to US $113 million for the period ended June 30, 2008, as compared to US $112 million for the comparable six month period of 2007.

Financing activities

Net cash used in financing activities amounted to US $12 million for the 2008 Interim Period, as compared to net cash provided of US $63 million for the 2007 comparable period. These differences are the result of a net retirement of debt during the Interim period as opposed to a net increase in debt during the 2007 comparable period.

Liquidity

The table below shows our cash and cash equivalents for the period ended June 30, 2008 and year ended 2007 (in thousands of US$--2008 is unaudited):

	2008	2007
Short-term deposit – US dollars	220,585	216,857
Short-term deposit – Russia rubles	0	61,254
Cash held in banks – Russian rubles	71,351	50,880
Cash held in banks – US dollars	24,770	14,098
Total cash and cash equivalents	**316,706**	**343,089**

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

Capital Expenditures

Our business is capital intensive and expenditures are primarily required to (i) purchase new drilling rigs and other equipment and (ii) upgrade and modernize the technical characteristics of our existing drilling rigs and equipment. For the period ended June 30, 2008 and for the year ended December 31, 2007 advances given for property, plant and equipment amounted to the following (in thousands of US$--June 30 period not audited):

	2008	2007
Advances given for property, plant and equipment	54,715	64,506

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$--the 2008 period is not audited):

	2008	2007
Construction in progress	146,621	133,652

Capital Resources

For the period ended June 30, 2008 and for the year ended December 31, 2007 our short-term and long-term debt amounted to the following (in thousands of US$) (please see our Interim Consolidated Financial Statements and the accompanying notes for more detail):

	2008	2007
Short-term debt and current portion of long-term debt	149,903	118,911
Long-term debt	146,540	165,494

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

<u>PetroAlliance</u>

During the Interim Period of 2008, EDC purchased well construction and related services and equipment from PetroAlliance Services Company Limited ("PAS"), of which a significant stockholder of EDC is the Chairman of the Board of Directors, in the amount of approximately US $14.2 million and US $13.8 million for the comparable six month period of 2007. Amounts payable to PAS were US$7.7 million and US $4.2 million as of June 30, 2008 and December 31, 2007, respectively.

<u>Shareholder Loans</u>

In the period from November 2006 through March 2007, the Company entered into loan agreements with our shareholders to partially fund the investment program of our onshore drilling services division and the purchase of our offshore drilling services business. The aggregate principal amount of such loans was US $70.0 million. The loans mature on December 31, 2011 and incur interest at the rate of 8.6% per annum. Interest expense of US $3.0 million and US $2.8 million was recognized and paid on these loans during the 2008 Interim period and 2007 comparable period, respectively. The slightly higher interest during the 2008 period is due to the timing of the funding of one of the loans during the first six months of 2007.

<u>Acquisition of OOO BKE Shelf</u>

Pursuant to a participating interest sale and purchase agreement, dated May 18, 2007, between AstraOrient Limited and Medjid Zulpukarov, we acquired a 100% interest in OOO "BKE Shelf" for a purchase price of RUR 10,000. Mr. Zulpukarov had held the interest as a nominee for the Company. Mr. Zulpukarov is an employee of the Company.

<u>Capital Lease Obligations</u>

Capital lease obligations for property, plant and equipment under capital lease as of June 30, 2008, and December 31, 2007, from an associated company, OAO LK Leasing – a company in which a substantial stockholder has a controlling interest, were US $ 9.9 million and US $ 1.5 million, respectively.

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.

The calculation of earnings per share for these periods was as follows:

	2008	**2007**
Net income available for common stockholders	132,671	78,545
Weighted-average number of outstanding shares (post split)	146,865,243	125,000,000
Basic earnings per share of common stock (US dollars)	0.90	0.63

There is no potential dilution in earnings available to common stockholders and as such diluted earnings per share are not disclosed.

Certain Factors Affecting our Results of Operations

Changes in Crude Oil and Natural Gas Prices

The prices of crude oil and natural gas in Russia can have a significant impact on our results of operations. World prices for crude oil are characterized by significant fluctuations that are determined by the global balance of supply and demand. However, Russian natural gas prices are regulated by the Russian government. While Russian natural gas prices have increased in recent years, and are expected to continue to rise to a level closer to parity with export netbacks, they are still significantly below world levels. A substantial or an extended decline in crude oil and natural gas prices could result in lower capital expenditures by our customers, and consequently, a reduction in the number of wells to be drilled by oil and gas companies. Such a pattern of sequential downward and upward changes of our customers' capital expenditures has caused the results of our drilling operations to vary significantly from year to year during the life of the Company. The results of our workover operations tend to be less sensitive to the fluctuations in crude oil and natural gas prices, as our clients require such services 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 meters drilled per active drilling crew. For the Period ended June 30, 2008, each of our active drilling crews drilled on average approximately 35,950 meters, computed on an annualized basis. We expect this measure of our efficiency to improve due to the recent implementation and utilization of more advanced drilling technologies and the application of new standards to our drilling operations. The former include the use of Polycrystalline Diamond Compact drill bits in conjunction with modern drilling motors, drilling with real-time drilling navigation, the use of top-drives and four-step drilling mud cleaning systems. The latter include, for example, an increase in allowed deviations of vertical wells and the use of drilling mud that is more suitable for the geological conditions in which we operate.

Operating Capacity

Our revenue growth can be negatively affected by the number of drilling rigs and drilling crews available to us. Our ability to grow our onshore business or maintain it at its current level depends on our ability to procure sufficient numbers of new drilling rigs and modernize our existing drilling rigs. As such, as of June 30, 2008, we have contractually committed to purchase 10 new drilling rigs, of which we expect 7 to be delivered during the last half of 2008. Furthermore, we expect to enter into contractual commitments to purchase 8 additional drilling rigs. However, the global demand for new drilling rigs and rig modernization services currently substantially exceeds their supply. Moreover, any new drilling rigs which we purchase will require an increase in the number of engineers, equipment operators and other technical and management personnel. We believe any such increase in personnel will result in an increase in the wages and salaries category of our cost of services.

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 Celsius in certain regions where we operate and the lost drilling time during such period amounted to approximately 90 days, which was equivalent to the loss of use of three drilling crews for one calendar month, 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 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 mobilized to remote locations accessible only by winter roads or helicopters. On the other hand, our 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 Sector of the Caspian Sea during winter months due to the presence of ice.

Market Trends

According to Douglas-Westwood, for the year ended December 31, 2006, the Russian oilfield services market (excluding equipment manufacturing and formation evaluation services, but including services performed by in-house oil field services providers) is estimated to be worth approximately US$10.7 billion and is forecast to rise to approximately US$27.4 billion by 2011, representing a CAGR of approximately 21%. While all regions show growth, based on current price levels, during this five-year period, the oilfield services market in Western Siberia is expected to grow at 13% CAGR compared to 21% for Timan Pechora and 13% for

Volga Urals. Eastern Siberia, the area where we expect to pursue opportunities to provide exploration drilling services, is expected to grow at 50% CAGR during the same period.

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 meters utilizing the horizontal drilling technique, while for the year ended December 31, 2006, our horizontal drilling operations increased to 146,718 meters, it increased further for the year ended December 31, 2007 when we drilled 302,134 meters utilizing the horizontal drilling technique. For the six month period ended June 30, 2008 we drilled 157,167 meters utilizing the horizontal technique. We expect the scope of our horizontal drilling to continue to grow as we expect our clients to increasingly demand such services in order to access additional producing horizons in the oil and gas fields they operate.

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, 2006, we drilled 42 sidetracks. For the year ended December 31, 2007, we drilled 53 side-tracks. And for the six month period ended June 30, 2008 we drilled 31 side-tracks. Although we currently have incurred minimal capital expenditures with respect to sidetracking, we expect to significantly increase these expenditures in the future as we expect these services to give us a larger margin than our more traditional drilling services.

Price Optimization

Our revenue growth 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 with current market levels.

Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

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

Our exposure to market risk for changes in interest rates relates primarily to our long-term and short-term debt. The table below presents scheduled long-term debt maturities in U.S. dollars and related weighted-average interest rates for each of the 12-month periods ending June 30 relating to debt obligations as of June 30, 2008 (in millions, except interest rate percentages):

	Scheduled Maturity Date							Fair Value
	2009	2010	2011	2012	2013	Thereafter	Total	June 30, 2008
Total long term debt								
Fixed rate	40,235	36,872	87,260	9,245	1,007	10,184	184,803	178,694
Average interest rate	7.95%	7.98%	7.99%	5.79%	3.76%	3.74%	7.95%	

As of June 30, 2008, all of our debt was fixed rate. As is further described in our June 30, 2008 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.

Fluctuations in the foreign currency exchange rates of the Russian ruble, as compared to the US dollar, may negatively impact our results of operations.

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, 2007, we had US $195.8 million of a total of US $265.8 million of our long and short-term debt denominated in the Russian ruble. As of June 30, 2008 we had US $214.1 million of a total of US $ 284.1 million of our long and short term debt denominated in the Russian ruble. In addition, the results of our operations are impacted by transactions entered into in currencies other than the Russian ruble, and a fluctuation in exchange rates will result in a change in the recognized revenues and expenses associated with such transactions. Furthermore, while the majority of our revenues are denominated in the Russian ruble, some of our costs, including 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 73.5% of our sales for the 2008 Interim Period. (81.8% for the 2007 interim 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, did not have any material bad debt expense from our operations during the 2008 Interim Period. Our cash and cash equivalents are placed with major banks within Russia and Switzerland.

Other Risks

Other Risks have been previously discussed and reported in our Prospectus which was filed in connection with our Initial Public Offering in November of 2007. There have been no material changes to these previously reported matters during the six months ended June 30, 2008. A copy of our Prospectus is available on our web site.

Critical Accounting Policies

Our Interim Consolidated Financial Statements are impacted by the accounting policies used by management during their preparation. The detailed discussion of our critical accounting policies is provided in Note 2 of our December 31, 2007 audited Consolidated Financial Statements.