EURASIA DRILLING COMPANY LIMITED

Interim Consolidated Financial Statements

(prepared in accordance with US GAAP)

As of and for the six month period ended June 30, 2010

(unaudited)

These interim consolidated financial statements were prepared by Eurasia Drilling Company Limited in accordance with US GAAP and have not been audited by our independent auditor. If these financial statements are audited in the future, the audit could reveal differences in our consolidated financial results and we can not assure that any such differences would not be material.

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Accountants' Report

The Board of Directors of
Eurasia Drilling Company Limited:

We have reviewed the accompanying interim consolidated balance sheet of Eurasia Drilling Company Limited and its subsidiaries ("the Company") as of June 30, 2010 and the related interim consolidated statements of income and interim consolidated statements of cash flows for the six-month periods ended June 30, 2010 and 2009. This interim financial information is the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for them to be in conformity with accounting principles generally accepted in the United States of America.

ZAO KPMG

ZAO KPMG

August 27, 2010

Eurasia Drilling Company Limited
Interim Consolidated Balance Sheets
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	As of June 30, 2010 (unaudited)	As of December 31, 2009
Assets			
Current assets			
Cash and cash equivalents	4	383,170	433,724
Accounts receivable, net	5	225,885	191,054
Inventories	6	140,062	116,801
Taxes receivable		25,010	35,772
Deferred income tax assets		8,484	11,227
Other current assets		15,487	6,271
Total current assets		**798,098**	**794,849**
Property, plant and equipment	7	656,331	684,188
Long-term accounts receivable		8,654	4,013
Deferred income tax assets		1,106	277
Goodwill	16	38,837	30,792
Other non-current assets	8	68,442	9,289
Total assets		**1,571,468**	**1,523,408**
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		185,513	228,499
Advances received		21,125	37,239
Short-term debt and current portion of long-term debt	9	37,432	31,796
Taxes payable		58,315	53,463
Deferred income tax liabilities		3,215	-
Total current liabilities		**305,600**	**350,997**
Long-term debt	10	126,470	150,379
Accrued pension liability		4,189	3,865
Deferred income tax liabilities		18,520	16,009
Total liabilities		**454,779**	**521,250**
Stockholders' equity	14		
Common stock		1,469	1,469
Treasury stock, at cost		-	(58,332)
Additional paid-in capital		689,520	528,163
Retained earnings		520,639	596,340
Accumulated other comprehensive loss		(94,939)	(65,482)
Total stockholders' equity		**1,116,689**	**1,002,158**
Total liabilities and stockholders' equity		**1,571,468**	**1,523,408**

W. Richard Anderson
CFO of Eurasia Drilling Company Limited

LIMITED LIABILITY COMPANY
EURASIA
DRILLING
COMPANY
LIMITED
CAYMAN ISLANDS

August 27, 2010

Eurasia Drilling Company Limited
Interim Consolidated Statements of Income
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	For the six months ended June 30, 2010 (unaudited)	For the six months ended June 30, 2009 (unaudited)
Revenues			
Drilling and related services		853,572	666,086
Other sales and services		8,441	7,102
Total revenues		**862,013**	**673,188**
Cost of services	13	(555,368)	(449,022)
Selling, general and administrative expenses		(54,659)	(43,944)
Taxes other than income taxes		(45,698)	(32,376)
Depreciation		(67,127)	(49,791)
Gain on disposal of property, plant and equipment		5,790	688
Income from operating activities		**144,951**	**98,743**
Interest expense		(7,629)	(7,530)
Interest income		6,531	3,655
Currency transaction (loss) gain		(1,870)	5,328
Other income (expenses)		55	(364)
Income before income taxes		**142,038**	**99,832**
Current income taxes		(29,234)	(23,083)
Deferred income taxes		(7,994)	1,643
Total income tax expense	3	**(37,228)**	**(21,440)**
Net income		**104,810**	**78,392**
Basic earnings per share of common stock (US dollars)	14	0.75	0.58
Diluted earnings per share of common stock (US dollars)	14	0.75	0.57

Eurasia Drilling Company Limited
Interim Consolidated Statements of Cash Flows
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	For the six months ended June 30, 2010 (unaudited)	For the six months ended June 30, 2009 (unaudited)
Cash flows from operating activities			
Net income		**104,810**	**78,392**
Adjustments for non-cash items:			
Depreciation		67,127	49,791
Accrued interest expense		1,770	538
Deferred income taxes		7,994	(1,643)
Gain on disposal of property, plant and equipment		(5,790)	(688)
Gain on sale of share in subsidiary		(970)	-
Allowance for doubtful accounts receivable		4,123	7,305
Foreign currency exchange rate difference (unrealized)		(644)	(7,285)
Incentive plan		2,100	2,100
All other items – net		(373)	6
Changes in operating assets and liabilities:			
Accounts receivable		(45,577)	502
Inventories		(25,249)	36,393
Taxes receivable		10,187	7,064
Other current assets		(9,470)	2,302
Accounts payable and accrued liabilities		9,389	(20,246)
Advances received		(15,544)	6,635
Taxes payable		7,036	8,072
Other liabilities		(1,320)	(307)
Net cash from operating activities		**109,599**	**168,931**
Cash flows from investing activities			
Purchases of property, plant and equipment		(60,220)	(123,550)
Change in restricted cash		(59,092)	57,394
Proceeds from sale of property, plant and equipment		8,140	1,873
Sale of share in subsidiary, net of cash disposed		754	-
Acquisition of subsidiaries, net of cash acquired		(23,781)	-
Net cash used in investing activities		**(134,199)**	**(64,283)**
Cash flows from financing activities			
Principal repayments of short-term debt		-	(45,366)
Principal repayments of long-term debt		(23,201)	(15,166)
Repayment of capital lease obligations		(275)	(1,915)
Dividends paid		(212,786)	(34,327)
Proceeds from sale of treasury stock		217,589	-
Purchase of treasury stock		-	(6,636)
Net cash used in financing activities		**(18,673)**	**(103,410)**
Effect of Exchange Rate Changes on Cash		(7,281)	(2,163)
Net decrease in cash and cash equivalents		**(50,554)**	**(925)**
Cash and cash equivalents at beginning of period		433,724	279,430
Cash and cash equivalents at end of period	4	**383,170**	**278,505**
Supplemental disclosures of cash flow information			
Interest paid		4,429	7,851
Income tax paid		11,969	9,418

Note 1. Basis of Financial Statement presentation

The accompanying interim consolidated financial statements and notes thereto of Eurasia Drilling Company Limited (the "Company) and its subsidiaries (together, the "Group) have not been audited by independent auditors, except for the balance sheet as of December 31, 2009. In the opinion of the Company's management, the interim consolidated financial statements include all adjustments and disclosures necessary to present fairly the Group's financial position, results of operations and cash flows for the interim periods reported herein. These adjustments were of a normal recurring nature.

These interim consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("US GAAP") applicable to interim financial reporting. These financial statements should be read in conjunction with the Group's December 31, 2009 annual consolidated financial statements. The interim consolidated financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2009 consolidated financial statements.

The results for the six-month period ended June 30, 2010 are not necessarily indicative of the results expected for the full year.

Functional and reporting currency

The functional currency of the Company and its subsidiaries, except for OOO Burovaya Kompaniya Eurasia, OOO Kliver, OOO NTS, OOO TGS, OOO KWWD, OOO UWWD, OOO Meridian and TOO BKE Kazakhstan Burenie, is the US dollar. The functional currency of OOO Burovaya Kompaniya Eurasia, OOO Kliver, OOO NTS, OOO TGS, OOO KWWD, OOO UWWD and OOO Meridian is the Russian ruble and the functional currency of TOO BKE Kazakhstan Burenie is the Kazakh Tenge because these are the currencies of the primary economic environments in which they operate and in which cash is generated and expended. The Group's reporting currency is the US dollar.

The closing exchange rate as of June 30, 2010 and December 31, 2009 was 31.1954 and 30.2442 Russian rubles to one US dollar, respectively.

Note 2. Recent accounting pronouncements

In February 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-09, *"Subsequent events"* which amends Accounting Standards Codification (ASC) No. 855 (former SFAS No. 165, *"Subsequent events"*), issued in May 2009. The Group adopted ASC No. 855 starting from the second quarter of 2009. These standards address accounting and disclosure requirements related to subsequent events and require management of an entity which is an SEC filer or is a conduit bond obligator for conduit securities that are traded in a public market to evaluate subsequent event through the date that the financial statements are issued. Entities that do not meet these criteria should evaluate subsequent events through the date the financial statements are available to be issued and are required to disclose the date through which subsequent events have been evaluated. The Group determined that it should evaluate subsequent events through the date the financial statements are available to be issued and applied the requirements of ASU No. 2010-09 starting from the financial statements for 2009.

Note 2. Recent accounting pronouncements (continued)

In January 2010, the FASB issued ASU No. 2010-06, *"Improving Disclosures about Fair Value Measurements,"* which requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. This ASU also clarifies existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the detailed Level 3 roll forward disclosures (which are effective for the annual reporting periods starting after December 15, 2010 and for interim periods within those annual reporting periods). The Group adopted the requirements of ASU No. 2010-06 (except for the detailed Level 3 roll forward disclosures) starting from the first quarter of 2010. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In January 2010, the FASB issued ASU No. 2010-02, *"Accounting and Reporting for Decreases in Ownership of a Subsidiary - A Scope Clarification"* to clarify the scope of ASC Subtopic No. 810-10, *"Consolidation – Overall."* This ASU specifies that the guidance in ASC Subtopic No. 810-10 on accounting for decreases in ownership of a subsidiary applies to: (1) a subsidiary or group of assets that constitutes a business or nonprofit activity; (2) a subsidiary that is a business or a nonprofit activity that is transferred to an equity method investee or a joint venture; and (3) an exchange of a group of assets that constitute a business or nonprofit activity for a noncontrolling interest in an entity. If a company's ownership interest in a subsidiary that is not a business or nonprofit activity decreases, then other accounting guidance generally would be applied based on the nature of the transaction. The new pronouncement also clarifies that the recent guidance on accounting for decreases in ownership of a subsidiary does not apply if the transaction is a sale of in-substance real estate or a conveyance of oil and gas properties. This ASU is effective for interim and annual periods ending after December 15, 2009 and the guidance should be applied on a retrospective basis to the first period in which the company adopted ASC No. 810. The Group adopted ASU No. 2010-02 for the 2009 annual financial statements. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In January 2010, the FASB issued ASU No. 2010-01, *"Accounting for Distributions to Shareholders with Components of Stock and Cash"* which addresses how an entity should account for the stock portion of a dividend in certain arrangements when a shareholder makes an election to receive cash or stock, subject to limitations on the amount of the dividend to be issued in cash. The stock portion of the dividend should be accounted for as a stock issuance upon distribution, resulting in basic earnings per share being adjusted prospectively. Prior to distribution, the entity's obligation to issue shares would be reflected in diluted earnings-per-share based on the guidance in ASC No. 260, which addresses contracts that may be settled in shares. This ASU is effective for interim and annual periods ending after December 15, 2009. The Group adopted ASU No. 2010-01 for the 2009 annual financial statements. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In December 2009, the FASB issued ASU No. 2009-17, *"Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,"* which amends the guidance on variable interest entities in ASC No. 810. This ASU changes the approach to determining a variable interest entity's (VIE) primary beneficiary from a quantitative assessment to a qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. ASU No. 2009-17 also clarifies, but does not significantly change, the characteristics that identify a VIE. ASU No. 2009-17 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2009, and for subsequent interim and annual reporting periods. The Group adopted the requirements of ASU No. 2009-17 starting from the first quarter of 2010. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

Note 2. Recent accounting pronouncements (continued)

In August 2009, the FASB issued ASU No. 2009-05, *"Measuring Liabilities at Fair Value,"* which amends Subtopic No. 820-10, *"Fair Value Measurements and Disclosures–Overall"* for the fair value measurements of liabilities. ASU No. 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: valuation based on the quoted price of the identical liability when traded as an asset; valuation based on quoted prices for similar liabilities or similar liabilities when traded as an asset, or another valuation technique that is consistent with the principles of Topic 820 (such as present value technique or price for the identical liability). This ASU also clarifies that an entity is not required to include a separate input relating to the existence of a restriction that prevents the transfer of the liability. ASU No. 2009-05 is effective for the first interim or annual reporting periods after its publication. The Group adopted the requirements of ASU No. 2009-05 starting from the financial statements for 2009. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In June 2009, the FASB issued ASC No. 105 (former SFAS No. 168, *"The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles").* The FASB Accounting Standards Codification ("Codification") is the exclusive authoritative reference for US GAAP recognized by the FASB and applied by nongovernmental entities, except for SEC rules and interpretive releases, which are also authoritative US GAAP for SEC registrants. The change established by ASC No. 105 divides nongovernmental US GAAP into authoritative Codification and guidance that is not authoritative. The contents of the Codification carry the same level of authority, eliminating the four-level US GAAP hierarchy previously set forth in SFAS No. 162. The Codification supersedes all non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification became nonauthoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Group adopted ASC No. 105 for the 2009 annual financial statements. This adoption did not have any impact on the Group's results of operations, financial position or cash flows.

In March 2008, the FASB issued ASC No. 815 (former SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities"*). This ASC improves financial reporting about derivative instruments and hedging activities by enhanced disclosures of their effects on an entity's financial position, financial performance and cash flows. The Group adopted the provisions of ASC No. 815 starting from the first quarter of 2009. This adoption did not have any impact on the Group's results of operations, financial position or cash flows.

In December 2007, the FASB issued ASC No. 810 (former SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51"*). This ASC applies to all entities that prepare consolidated financial statements (except not-for-profit organizations) and affects those which have an outstanding noncontrolling interest (or minority interest) in their subsidiaries or which have to deconsolidate a subsidiary. This ASC changes the classification of a non-controlling interest; establishing a single method of accounting for changes in the parent company's ownership interest that does not result in deconsolidation and requires a parent company to recognize a gain or loss when a subsidiary is deconsolidated. The Group prospectively adopted the provisions of ASC No. 810 in the first quarter of 2009, except for the presentation and disclosure requirements which were applied retrospectively. This adoption did not have any impact on the Group's results of operations, financial position or cash flows.

Note 3. Income taxes

Operations in the Russian Federation are subject to a Federal income tax rate of 2.0% and a regional income tax rate that varies from 13.5% to 18.0% at the discretion of the individual regional administration.

(All amounts in thousands of US dollars, unless otherwise noted)

Note 3. Income taxes (continued)

The Groups' operations outside the Russian Federation are subject to the following rates of income tax:

Kazakhstan	30%-40%
Turkmenistan	20%
Cyprus	10%
Cayman Islands and British Virgin Islands	0%

The majority of the Group's earnings for the periods ended June 30, 2010 and 2009 were taxed in the Russian Federation.

The Group's effective income tax rates for the periods ended June 30, 2010 and 2009 differ from the statutory income tax rate primarily due to the incurrence of costs that are either not tax deductible or only deductible to a certain limit.

The increase of the effective income tax rate in the period ended June 30, 2010 is caused primarily by a 5% foreign withholding tax on intercompany dividends declared in the amount of RUR 5.0 billion which at the US dollar exchange rate as of June 30, 2010 amount to USD 160.3 million. During the reporting period RUR 3.0 billion was remitted, RUR 2.0 billion was remitted in July 2010 for which deferred tax liability in the amount of USD 3.2 million was accrued as of June 30, 2010.

The Company will change its intercompany dividend policy starting July 1, 2010 and will recognize deferred income tax on 20% of the undistributed earnings of its Russian subsidiary OOO Burovaya Kompaniya Eurasia. The remaining earnings of its Russian subsidiaries are considered to be reinvested indefinitely.

The Group's accounting policy is to record penalties and interest related to unrecognized tax benefit as components of income tax expense.

Note 4. Cash and cash equivalents

Cash and cash equivalents include the following:

	As of June 30, 2010	As of December 31, 2009
Short-term deposit - Russian rubles	155,531	212,485
Short-term deposit - US dollars	135,974	115,789
Cash held in banks - other currencies	54,481	60,000
Cash held in banks - Russian rubles	36,895	44,110
Other	289	1,340
Total cash and cash equivalents	**383,170**	**433,724**

Note 5. Accounts receivable, net

Accounts receivable include the following:

	As of June 30, 2010	As of December 31, 2009
Trade accounts receivable	241,076	201,321
Advances given	6,583	8,100
	247,659	209,421
Allowance for doubtful accounts	(21,774)	(18,367)
Total accounts receivable, net	**225,885**	**191,054**

(All amounts in thousands of US dollars, unless otherwise noted)

Note 6. Inventories

Inventories include the following:

	As of June 30, 2010	As of December 31, 2009
Materials for drilling and workover	122,508	110,000
Work in progress	17,554	6,801
Total inventories	**140,062**	**116,801**

Note 7. Property, plant and equipment

Property, plant and equipment include the following:

	As of June 30, 2010	As of December 31, 2009
Machinery and equipment	859,895	787,989
Buildings	31,589	32,017
Vehicles	21,836	25,586
	913,320	845,592
Less: accumulated depreciation	(306,922)	(251,180)
Construction in progress	41,230	73,997
Advances given for property, plant and equipment	8,703	15,779
Total property, plant and equipment	**656,331**	**684,188**

Note 8. Restricted Cash

The Group had restricted cash of USD 61.7 million and USD 2.6 million included in other non-current assets as of June 30, 2010 and December 31, 2009, respectively. This amount collateralizes the Company's issuance of commercial letters of credit.

Note 9. Short-term debt and current portion of long-term debt

Short-term debt and current portion of long-term debt includes the following:

	As of June 30, 2010	As of December 31, 2009
Current portion of long-term debt (note 10)	37,176	31,291
Short-term capital lease obligations	256	505
Total short-term debt and current portion of long-term debt	**37,432**	**31,796**

(All amounts in thousands of US dollars, unless otherwise noted)

Note 10. Long-term debt

Long-term debt includes the following:

Lender	Final maturity date	As of June 30, 2010	As of December 31, 2009
Debt of the Company			
Loans from stockholders	2011	70,000	70,000
Debt of the Company's subsidiaries			
OAO AKB Sberegatelny Bank	2013	56,787	58,573
ZAO UniCredit Bank	2012	16,562	22,208
Loan from an individual	2012	6,392	-
Loans from LUKOIL Group companies			
OOO LUKOIL-West Siberia	2011	10,010	13,292
OOO LUKOIL-Perm	2041	987	1,086
OAO Tebukneft	2014	302	337
OAO Uhtaneft	2015	83	93
OAO Komineft	2010	59	190
OOO LUKOIL-Komi	2010	1	2
OAO LUKOIL	2018	-	12,788
OOO Lukoil Nizhnevolzhskneft	2010	-	243
Total long-term debt		**161,183**	**178,812**
Current portion of long-term debt (note 9)		(37,176)	(31,291)
Long-term capital lease obligation		2,463	2,858
Total non-current long-term debt		**126,470**	**150,379**

Stockholders

Long-term loans from stockholders represent loans denominated in US dollars which bear interest at 8.60% and mature on December 31, 2011. These loans were received for the purpose of financing the purchases of property, plant and equipment.

Debt of the Company's subsidiaries

OAO AKB Sberegatelny Bank

Long-term debts with OAO AKB Sberegatelny Bank with an outstanding balance of USD 56.8 million as of June 30, 2010 are denominated in Russian rubles. These debts were given for the issuance of commercial letters of credit with OAO AKB Sberegatelny Bank. Under the terms of debt agreements, these debts bear interest at 3% per annum on unpaid amount of the letters of credit and at LIBOR plus 4.1% per annum on the remaining amount.

ZAO UniCredit Bank

Long-term debt with ZAO UniCredit Bank with an outstanding balance of USD 16.6 million is denominated in Russian rubles and bear interest at 8.95% per annum.

(All amounts in thousands of US dollars, unless otherwise noted)

Note 10. Long-term debt (continued)

Individual

Long-term debt from an individual represents a loan denominated in US dollars which bears interest at 0% and mature on May 1, 2012. This relates to the acquisition of the new workover company OOO Meridian (refer to Note 16). This loan has been recorded at fair value based on the effective interest rate estimated by the management to be applicable to the Company at the acquisition date which was 13% per annum.

This debt is secured by the shares of OOO Meridian.

LUKOIL Group companies

Long-term debt of subsidiaries, denominated in Russian rubles, represent various borrowings from LUKOIL Group Companies. This long-term debt has been recorded at fair value based on effective interest rates estimated by management to be applicable to the Company at the acquisition date, which on average was 12.66% per annum.

Long-term debt of subsidiaries is secured by property, plant and equipment with a carrying amount of USD 59.3 million.

Maturities of long-term debts outstanding at June 30, 2010 are as follows:

July 1, 2010 to June 30, 2011	July 1, 2011 to December 31, 2011	2012	2013	2014	2015 and thereafter
37,176	90,905	19,427	12,733	125	817

Note 11. Pension benefits

Components of net periodic benefit cost were as follows:

	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Interest cost	486	455
Service cost	402	233
Less expected return on plan assets	(358)	(336)
Amortisation of prior service benefit	(65)	-
Recognised actuarial gain	(6)	-
Total net periodic benefit cost	**459**	**352**

(All amounts in thousands of US dollars, unless otherwise noted)

Note 12. Fair value of financial instruments

The fair values of all financial instruments are approximately equal to their carrying values as disclosed in the interim consolidated financial statements. Fair values were determined based on discounted cash flows using estimated market interest rates for similar financial arrangements.

Note 13. Cost of services

Cost of services includes the following:

	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Services of subcontractors	208,961	158,697
Wages and salaries	159,310	110,985
Materials	102,482	112,137
Fuel and energy	42,221	32,940
Transportation of employees to drilling fields	11,764	11,553
Leasing and rent	4,247	4,729
Other	26,383	17,981
Total cost of services	**555,368**	**449,022**

Note 14. Stockholders' equity

Common stock

	As of June 30, 2010	As of December 31, 2009
Authorized and issued common stock, par value 0.01 US dollar each	146,865,243	146,865,243
Treasury stock	-	(12,421,825)
Issued and outstanding common stock, par value 0.01 US dollar each	**146,865,243**	**134,443,418**

Dividends and dividends limitations

Profits available for distribution from the Company's Russian subsidiaries to the Company in respect of any reporting period are primarily determined by reference to the statutory financial statements of these subsidiaries prepared in accordance with the laws of the Russian Federation and denominated in Russian rubles. Under Russian Law, dividends are limited to the retained earnings as set out in the statutory financial statements of the Company's Russian subsidiaries. These laws and other legislative acts governing the rights of stockholders to receive dividends are subject to various interpretations.

Retained earnings of the Company's Russian subsidiaries were RUR 18.1 billion and RUR 19.8 billion, respectively as of June 30, 2010 and December 31, 2009, pursuant to the statutory financial statements, which at the US dollar exchange rates as of June 30, 2010 and December 31, 2009 amount to USD 581 million and USD 654 million, respectively.

At the Board of Directors meeting on December 15, 2009, dividends were declared for 2009, in the amount of USD 0.25 per common share. Dividends payable by the Company of USD 34 million were included in "Accounts payable and accrued liabilities" in the consolidated balance sheet as of December 31, 2009. During the reporting period the dividends were fully paid.

On April 15, 2010 the Company completed a placing of the balance of its GDRs repurchased by the Group as part of its buy-back program at a price of USD 19.00 per GDR. In connection with the placing the Company announced a one-time special interim dividend of USD 179 million. During the reporting period the dividends were fully paid.

(All amounts in thousands of US dollars, unless otherwise noted)

Note 14. Stockholders' equity (continued)

Earnings per share

The calculation of earnings per share was as follows:

	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Net income available for common stockholders	104,810	78,392
Weighted average number of outstanding shares	139,395,511	135,814,029
Basic earnings per share of common stock (US dollars)	0.75	0.58
Contingent shares of stock incentive program (Note 21)	588,585	983,494
Weighted average number of outstanding shares, after dilution	139,984,096	136,797,523
Diluted earnings per share of common stock (US dollars)	0.75	0.57

Note 15. Comprehensive income

	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Net income	104,810	78,392
Other comprehensive income:		
Foreign currency translation loss	(29,457)	(41,229)
Comprehensive income	**75,353**	**37,163**

Note 16. Business combinations

In June 2010, Eurasia Drilling Company Group acquired a 100% interest in OOO Meridian for USD 12.2 million which will be paid in three installments ending May 1, 2012. The fair value of consideration comprised USD 11.0 million as of the date of acquisition, of which USD 4.6 million was repaid before June 30, 2010. The remaining amount of USD 6.4 million was recognized as loan from individual (refer to Note 10).

OOO Meridian performs well workover in Komi region. The purpose of the acquisition was to gain access to a new geographical market for workover services allowing more efficient delivery of services.

This business combination did not have a material impact on the Group's consolidated operations for the six month periods ended June 30, 2010 and 2009. Therefore, no pro forma income statement information has been provided.

The Group allocated USD 9.0 million to goodwill, USD 0.7 million to property, plant and equipment, USD 2.5 million to current assets, and USD 1.2 million to liabilities. The value of property, plant and equipment was determined by an independent appraiser. The main factors that made up the goodwill recognition are related to synergies the Group is expecting to achieve from combined operations.

In December 2009, Eurasia Drilling Company Group acquired 100% interests in OOO Tekhgeoservice (OOO TGS) for RUR 1.06 billion (or USD 35.0 million at the US dollar exchange rate as of December 31, 2009) paid in cash.

OOO TGS is a Russian provider of wellsite directional drilling and telemetry services. The purpose of the acquisition was to broaden the spectrum of well construction services and improve the technical efficiency of the Group.

Note 16. Business combinations (continued)

The Group allocated USD 30.8 million to goodwill, USD 4.6 million to property, plant and equipment, USD 3.9 million to current assets, USD 0.3 million to long-term deferred tax liabilities and USD 4.0 million to other liabilities. The value of property, plant and equipment was determined by an independent appraiser. The main factors that made up the goodwill recognition are related to synergies the Group is expecting to achieve from combined operations, the higher profit margins that the acquired business generates and access to telemetry technology.

In December 2009, Eurasia Drilling Company Group acquired 100% interests in OOO Kogalym Well Workover Division (OOO KWWD) and OOO Urai Well Workover Division (OOO UWWD) for RUR 645 million (or USD 21.3 million at the US dollar exchange rate as of December 31, 2009) paid in cash.

OOO KWWD and OOO UWWD perform well workover, well reconditioning and well servicing operations in West Siberia for OAO LUKOIL. The purpose of the acquisition was to increase the Group's market share in workover business.

The Group allocated USD 31.1 million to property, plant and equipment, USD 28.1 million to other assets, USD 13.3 million to short-term and long-term debt, USD 0.6 million to long-term deferred tax liability, USD 21.2 million to other liabilities and recognized USD 2.8 million gain on the bargain purchase. The value of property, plant and equipment was determined by an independent appraiser. The transaction resulted in a net gain because the acquired entities were generating low profit margins prior to the acquisition and represented non-core assets of OAO LUKOIL Group.

Note 17. Commitments and contingencies

Commitments

Commitments for provision of drilling services

In 2009 the Group signed a three-year agreement for drilling services with OAO LUKOIL. Under this agreement the Group will provide drilling services to the LUKOIL Group and precise terms of rendering of such services will be set by signing annual well construction contracts with the LUKOIL Group starting from January 1, 2010 through December 31, 2012. The estimated level of drilling to be performed by the Group during this three-year period was agreed at a minimum of 6.7 million meters. The prices for drilling services under these contracts will be reviewed on an annual basis based on market prices.

The Group estimates that drilling services of at least USD 296 million will be provided by the Group during the remaining 6 months of 2010.

Contingencies

Insurance

The insurance industry in the Russian Federation, Kazakhstan and Turkmenistan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Note 17. Commitments and contingencies (continued)

Contingencies (continued)

Litigation

The Group is involved in various claims and legal actions arising in the normal course of business. It is the opinion of management that the ultimate disposition of these matters will not have a material adverse effect on the Group's consolidated financial position, results of operations, or liquidity.

Environmental obligations

Group companies have operated in the Russian Federation, Kazakhstan and Turkmenistan for several years. Environmental regulations are currently under consideration in these countries. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

As liabilities in respect of the Group's environmental obligations are able to be determined, they are charged against income. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

Taxation

The taxation system in the Russian Federation, Kazakhstan and Turkmenistan is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Within the Russian Federation the tax authorities in each region may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessful in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues.

These circumstances may create tax risks that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislations, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these interim consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Note 18. Related party transactions

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company considers that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties in this environment and has disclosed all of the relationships identified which it deemed to be significant.

(All amounts in thousands of US dollars, unless otherwise noted)

Note 18. Related party transactions (continued)

The Company's General Counsel, Douglas Stinemetz, is a partner with The Stinemetz Law Firm. During six months ended June 30, 2010 and 2009 the firm billed the Company for costs and expenses of USD 0.7 million and USD 0.5 million, respectively. Mr. Stinemetz is not otherwise paid for his services as the Company's General Counsel.

Long-term loans from stockholders were USD 70 million as of June 30, 2010 and December 31, 2009 (refer note 10). Interest expense of USD 3 million and USD 3 million was recognized and paid on these loans during the 6 months ended June 30, 2010 and 2009, respectively.

Note 19. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended June 30, 2010 and 2009, in accordance with ASC 280, *"Disclosures about Segments of an Enterprise and Related Information"*.

The Group has two operating and geographical segments: on-shore drilling conducted in the CIS and off-shore drilling conducted in the Caspian Sea. These segments are based upon the Group's organizational structure, the way in which these operations are managed, the availability of separate financial results, and materiality considerations. Management, on a regular basis, assesses the performance of these operating segments.

Geographical segments have been determined based on the area of operations and include two segments. They are CIS and the Caspian Sea.

Segment detailed information is summarized as follows:

For the six month period ended June 30, 2010

	On-shore drilling services (CIS)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	811,775	50,238	862,013
Net income	91,440	13,370	104,810
Total assets	1,480,788	90,680	1,571,468

For the six month period ended June 30, 2009

	On-shore drilling services (CIS)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	637,978	35,210	673,188
Net income	66,794	11,598	78,392
Total assets	1,254,724	74,557	1,329,281

Note 20. Concentration of credit risk and sales

A significant proportion of the Group's operations are with LUKOIL Group companies and as such the Group has significant concentrations of credit risk with the LUKOIL Group.

(All amounts in thousands of US dollars, unless otherwise noted)

Note 20. Concentration of credit risk and sales (continued)

Included in the Group's sales and accounts receivables are the following transactions and balances with LUKOIL Group companies.

	2010	2009
Sales for the six months ended June 30	594,263	458,795
Accounts receivable as of June 30, 2010 and December 31, 2009	132,965	106,500

Note 21. Incentive Compensation plan

In March 2008, the Company introduced an incentive plan to certain members of management ("participants") for a five year period from January 1, 2008. Compensation under this plan is based on a multiple of the participants' annual salary and adjusted for:

- a percentage determined by the increase in the quoted price of the Company's stock from a pre-determined Starting Price to the closing price of the stock in the particular year ("Factor"), and
- the year of compensation under the plan.

The Factor ranges from 0% (where the increase in the stock price is less than 5%) to 100% (where the increase in the stock price is greater than 20%) for any given year during the five year period.

The percentages applied to each of the years under the plan are equal to 12% for 2008, 15% for 2009, 18% for 2010, 25% for 2011 and 30% for 2012.

The Starting Price for the 2008 year was USD 27.09 and has been determined with reference to the quoted market price of the Company's shares on the London Stock Exchange ("LSE"). The Starting Price is determined at the beginning of each year based on an average quoted stock price for the last 20 trading days of the preceding year.

The rights to compensation under this plan vest yearly, immediately after the final trading day of the compensation year if the participants are still employed or otherwise in good standing with the Company.

The fair value of the plan was estimated using the Monte Carlo simulation method for the years 2008 to 2012, assuming risk-free interest rates of 0.37% and 1.55% that are based on the yield of one and five year US Treasury securities as of the valuation date, respectively, an expected term of five years and a volatility factor of 48%.

The expected volatility factor was estimated based on the average historical volatility of comparable companies' shares for the previous 5 year period, ranging from 40 to 86%. The average and median of these were 56% and 48%, respectively. A portion of the award vests upon completion of each plan year and no restrictions apply thereafter. Therefore, no post vesting discount has been applied.

The grant date fair value of the plan was estimated at USD 21 million by an independent consulting firm. The Company has approximately USD 10.5 million of unrecognized compensation expense as of June 30, 2010 that will be accrued up to 2012.

Effective January 1, 2009 the Company has modified the incentive plan and cancelled participants' right to elect to receive cash in lieu of GDRs upon the vesting of such performance award. This modification converts the plan from liability to equity classified. The Group recognized USD 2.1 million of compensation expense during six months ended June 30, 2010 and 2009.

Note 21. Incentive Compensation plan (continued)

On February 1, 2010 the Company announced that in accordance with its incentive compensation plan participants of the Plan were awarded 718,868 GDRs for their performance in 2009. One GDR represents one ordinary share.

The number of contingent shares of stock incentive program is estimated based on the stock price as of June 30, 2010 and is approximately 589 thousand shares.

Note 22. Subsequent events

On August 9, 2010 the Group acquired a 100% interest in OOO MTU from OOO "Slavneft-Megionneftegaz" for USD 8.8 million paid in cash. OOO MTU is a Russian provider of cementing services in West Siberia. The purpose of the acquisition was to broaden the spectrum of well construction services, improve the technical efficiency of the Group and to get a new customer in West Siberia.

The Company has evaluated subsequent events from the balance sheet date through August 27, 2010, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.