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, 2008

(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.

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Independent Accountants' Review Report

To the Board of Directors of
Eurasia Drilling Company Limited:

We have reviewed the accompanying consolidated balance sheet of Eurasia Drilling Company Limited and its subsidiaries ("the Company") as of June 30, 2008, and the related consolidated statements of income and cash flows for the six-month periods ended June 30, 2008 and 2007. These interim financial statements are the responsibility of the company's management.

We conducted our review 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 generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

ZAO KPMG

ZAO KPMG

September 5, 2008

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

	Note	As of June 30, 2008 (unaudited)	As of December 31, 2007
Assets			
Current assets			
Cash and cash equivalents	4	316,706	343,089
Accounts receivable, net	5	281,434	230,888
Inventories	6	309,235	208,284
Taxes receivable		31,446	46,127
Deferred income tax assets		7,772	8,775
Other current assets		17,667	8,481
Total current assets		**964,260**	**845,644**
Property, plant and equipment	7	600,311	496,670
Long-term accounts receivable		5,608	6,542
Deferred income tax assets		1,458	4,198
Other non-current assets		6,621	6,749
Total assets		**1,578,258**	**1,359,803**
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		225,713	210,337
Advances received		20,038	3,339
Short-term debt and current portion of long-term debt	8	149,903	118,911
Taxes payable		53,726	32,444
Total current liabilities		**449,380**	**365,031**
Long-term debt	9	146,540	165,494
Accrued pension liability		5,489	4,860
Long-term VAT payable		407	1,012
Deferred income tax liabilities		1,962	1,510
Total liabilities		**603,778**	**537,907**
Stockholders' equity	13		
Common stock		1,469	1,469
Additional paid-in capital		514,180	514,180
Retained earnings		410,526	277,855
Accumulated other comprehensive income		48,305	28,392
Total stockholders' equity		**974,480**	**821,896**
Total liabilities and stockholders' equity		**1,578,258**	**1,359,803**

W. Richard Anderson
CFO of Eurasia Drilling Company Limited

LIABILITY COMPANY LIMITED EURASIA DRILLING COMPANY LIMITED CAYMAN ISLANDS

September 5, 2008

See accompanying notes to these interim consolidated financial statements and independent accountants' review report.

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, 2008 (unaudited)	For the six months ended June 30, 2007 (unaudited)
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	12	(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)	(13,994)
Interest income		5,105	626
Currency transaction gain		10,292	403
Other expenses		(855)	(1,665)
Income before income taxes		**175,437**	**108,279**
Current income taxes		(38,187)	(26,677)
Deferred income taxes		(4,579)	(3,057)
Total income tax expense	3	**(42,766)**	**(29,734)**
Net income		**132,671**	**78,545**
Basic and diluted earnings per share of common stock (US dollars)	13	0.90	0.63

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, 2008 (unaudited)	For the six months ended June 30, 2007 (unaudited)
Cash flows from operating activities			
Net income		**132,671**	**78,545**
Adjustments for non-cash items:			
Depreciation		32,575	14,653
Accrued interest expense		2,416	1,885
Deferred income taxes		4,579	3,057
Gain on disposal of property, plant and equipment		(91)	(690)
Decrease in allowance for doubtful accounts receivable		(27)	(960)
Changes in operating assets and liabilities:			
Accounts receivable		(37,073)	(55,630)
Inventories		(90,062)	(23,028)
Taxes receivable		16,315	2,990
Other current assets		(9,251)	(1,082)
Accounts payable and accrued liabilities		6,073	12,276
Advances received		16,253	1,604
Taxes payable		18,999	2,344
Other liabilities		227	4,121
All other items – net		375	73
Net cash from operating activities		**93,979**	**40,158**
Cash flows from investing activities			
Purchases of property, plant and equipment		(115,182)	(115,694)
Proceeds from sale of property, plant and equipment		2,162	3,865
Net cash used in investing activities		**(113,020)**	**(111,829)**
Cash flows from financing activities			
Proceeds from issuance of short-term debt		215,372	80,958
Principal repayments of short-term debt		(198,626)	(71,508)
Proceeds from issuance of long-term debt		-	60,410
Principal repayments of long-term debt		(20,425)	(2,973)
Repayment of capital lease obligations		(8,104)	(4,231)
Net cash from financing activities		**(11,783)**	**62,656**
Effect of Exchange Rate Changes on Cash		4,441	(820)
Net decrease in cash and cash equivalents		(26,383)	(9,835)
Cash and cash equivalents at beginning of period		343,089	29,296
Cash and cash equivalents at end of period	4	**316,706**	**19,461**
Supplemental disclosures of cash flow information			
Interest paid		11,201	12,109
Income tax paid		18,869	23,657

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 accountants, except for the balance sheet as of December 31, 2007. 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"). These financial statements should be read in conjunction with the Group's Dec ember 31, 2007 annual consolidated financial statements. The interim consolidated financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2007 consolidated financial statements.

The results for the six-month period ended June 30, 2008 are not necessarily indicative of the results expected for the full year.

Functional and reporting currency

The functional currency of the Company and subsidiaries, except for OOO Eurasia Drilling Company and TOO BKE Kazakhstan Burenie, is the US dollar. The functional currency of OOO Eurasia Drilling Company is the Russian ruble and the functional currency of TOO BKE Kazakhstan Burenie is Kazakh Tenge as 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, 2008 and December 31, 2007 was 23.4573 and 24.5462 Russian rubles to one US dollar, respectively. The closing exchange rate as of June 30, 2008 and December 31, 2007 was 120.75 and 120.30 Kazakhstan tenge to one US dollar, respectively.

Note 2. Recent accounting pronouncements

In March 2008, the FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities"*.This Statement improves financial reporting about derivative instruments and hedging activities by enhanced disclosures of their effects on entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements for fiscal years and interim periods beginning after November 15, 2008, early application is encouraged. The Group is required to adopt the provisions of SFAS No. 161 in the first quarter 2009 and does not expect any material impact on its results of operations, financial position or cash flows upon adoption.

In December 2007, the FASB issued SFAS No. 141 (Revised), *"Business combinations."* This Statement will apply to all transactions in which an entity obtains control of one or more businesses. SFAS No. 141 (Revised) requires an entity to recognize the fair value of assets acquired and liabilities assumed in a business combination; to recognize and measure the goodwill acquired in the business combination or gain from a bargain purchase and modifies the disclosure requirements. The Group is required to prospectively adopt the provisions of SFAS No. 141 (Revised) for business combinations for which the acquisition date is on or after January 1, 2009. Early adoption of SFAS No. 141 (Revised) is prohibited.

Note 2. Recent accounting pronouncements (continued)

In December 2007, the FASB issued SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51."* This Statement will apply to all entities that prepare consolidated financial statements (except not-for-profit organizations) and will affect those which have an outstanding noncontrolling interest (or minority interest) in their subsidiaries or which have to deconsolidate a subsidiary. This Statement 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 is required to prospectively adopt the provisions of SFAS No. 160 in the first quarter 2009, except for the presentation and disclosure requirements which shall be applied retrospectively. Early adoption of SFAS No. 160 is prohibited.

In February 2007, FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities."* This Statement expands the possibility of using fair value measurements and permits enterprises to choose to measure certain financial assets and financial liabilities at fair value. Enterprises shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent period. The Group adopted the provisions of SFAS No. 159 in the first quarter of 2008. The Group elected not to use the fair value option for its financial assets and financial liabilities not already carried at fair value in accordance with other standards. Therefore the adoption of SFAS No. 159 did not have any impact on the Group's results of operations, financial position or cash flows.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements,"* which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. In February 2008, the FASB issued Staff Position ("FSP") No. 157-2, "*Effective date of FASB Statement No. 157,*" which defers the effective date of SFAS No. 157 for certain non-financial assets and non-financial liabilities to the first quarter of 2009. The Group elected to adopt SFAS No. 157 with deferral permitted by FSP No. 157-2. The deferral applies to non-financial assets and liabilities measured at fair value in a business combination and impaired property, plant and equipment for which we use fair value. The Group does not expect any material impact on its results of operations, financial position or cash flows on adoption of SFAS No. 157 for these assets and liabilities.

The initial adoption of the provisions of SFAS No. 157 did not have a material impact on the Group's results of operations, financial position or cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109"* (FIN 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *"Accounting for Income Taxes."* The Group adopted the provisions of FIN 48 in the first quarter of 2007. The adoption of the provisions of Interpretation No. 48 did not have a material impact on the Group's results of operations, financial position or cash flows.

Note 3. Income taxes

The Group is taxable in a number of jurisdictions within and outside of the Russian Federation and, as a result, is subject to a variety of taxes as established under the statutory provisions of each jurisdiction.

The maximum combined statutory tax rate in the Russian Federation is 24%.

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

Note 3. Income taxes (continued)

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

Kazakhstan	40%
Turkmenistan	20%
Cyprus	10%
Cayman Islands, British Virgin Islands and the Netherlands	0%

The majority of the Group's earnings in 2007 and 2006 were taxed in the Russian Federation.

The Group's effective income tax rates for the periods ended June 30, 2008 and 2007 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 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, 2008	As of December 31, 2007
Short-term deposit - US dollars	220,585	216,857
Cash held in banks - Russian rubles	71,351	50,880
Cash held in banks - US dollars	24,770	14,098
Short-term deposit - Russian rubles	-	61,254
Total cash and cash equivalents	**316,706**	**343,089**

Note 5. Accounts receivable, net

Accounts receivable include the following:

	As of June 30, 2008	As of December 31, 2007
Trade accounts receivable	275,633	226,807
Advances given	10,601	8,695
	286,234	235,502
Allowance for doubtful accounts	(4,800)	(4,614)
Total accounts receivable, net	**281,434**	**230,888**

Note 6. Inventories

Inventories include the following:

	As of June 30, 2008	As of December 31, 2007
Materials for drilling and workover	261,250	189,252
Work in progress	35,339	14,789
Other consumables	12,646	4,243
Total inventories	**309,235**	**208,284**

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

Note 7. Property, plant and equipment

Property, plant and equipment include the following:

	As of June 30, 2008	As of December 31, 2007
Machinery and equipment	468,474	334,481
Buildings	25,935	24,802
Vehicles	12,124	10,730
	506,533	370,013
Less: accumulated depreciation	(107,558)	(71,501)
Construction in progress	146,621	133,652
Advances given for property, plant and equipment	54,715	64,506
Total property, plant and equipment	**600,311**	**496,670**

Note 8. 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, 2008	As of December 31, 2007
Short-term debt	105,364	84,337
Current portion of long-term debt (note 9)	38,296	25,282
Short-term capital lease obligations	6,243	9,292
Total short-term debt and current portion of long-term debt	**149,903**	**118,911**

Short-term debt represents the following:

	Currency	Maturity	Stated interest	As of June 30, 2008
ZAO UniCredit Bank	Russian rubles	May 18, 2009	9.45%	63,946
OAO AKB Sberegatelny Bank	Russian rubles	September 12, 2008	8.00%	38,368
ZAO UniCredit Bank	Russian rubles	July 03, 2008	4.05%	1,977
OAO Petrocommertz Bank	Russian rubles	December 12, 2008	13.50%	1,049
OAO AKB Sberegatelny Bank	Russian rubles	February 09, 2009	14.50%	24
Total short-term debt				**105,364**

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

Note 9. Long-term debt

Long-term debt includes the following:

Lender	Final maturity date	As of June 30, 2008	As of December 31, 2007
Debt of the Company			
Loans from stockholders	2011	70,000	70,000
Debt of the Company's subsidiaries			
ZAO UniCredit Bank	2012	39,647	37,888
ZAO UniCredit Bank	2009	33,614	33,814
Loans from LUKOIL Group companies			
OAO NK LUKOIL	2018	30,926	34,826
OOO Lukoil Nizhnevolzhskneft	2010	1,723	2,096
OOO LUKOIL-Perm	2041	1,401	1,348
OAO Komineft	2010	717	873
OAO Tebukneft	2014	520	521
OAO Uhtaneft	2015	142	142
OOO LUKOIL-Komi	2010	7	8
Total long-term debt		**178,697**	**181,516**
Current portion of long-term debt (note 8)		(38,296)	(25,282)
Long-term capital lease obligation		6,139	9,260
Total non-current long-term debt		**146,540**	**165,494**

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.

ZAO UniCredit Bank (formerly ZAO International Moscow Bank)

Long-term debts with ZAO UniCredit Bank with outstanding balances of USD 33.6 million and USD 39.6 million are denominated in Russian rubles and bear interest at 8.75% and 8.95% per annum, respectively.

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 94.5 million.

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

Note 9. Long-term debt (continued)

AK Sberegatelny Bank of the Russian Federation (OAO) – Zapadno-Uralskiy Bank

OOO Eurasia Drilling Company has the following unused unsecured credit facilities with AK Sberegatelny Bank of USD 106.6 million denominated in Russian rubles:

Lender	Interest rate	Maturity date	As of June 30, 2008
AK Sberegatelny Bank – Zapadno-Uralskiy Bank	7.4%	July 10, 2008	21,315
AK Sberegatelny Bank – Zapadno-Uralskiy Bank	7.4%	August 26,2008	21,315
AK Sberegatelny Bank – Zapadno-Uralskiy Bank	9.5%	April 17, 2009	21,315
AK Sberegatelny Bank – Zapadno-Uralskiy Bank	9.5%	April 22, 2009	42,631
Total credit facilities			**106,576**

Maturities of long-term debts outstanding at June 30, 2008 are as follows:

July 1, 2008 to June 30, 2009	July 1, 2009 to December 31, 2009	2010	2011	2012	2013 and thereafter
38,296	24,249	20,655	85,513	2,086	7,898

Note 10. Pension benefits

Components of net periodic benefit cost were as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Service cost	361	341
Interest cost	372	438
Less expected return on plan assets	(330)	(255)
Curtailment loss	-	4
Total net periodic benefit cost	**403**	**528**

Note 11. 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.

The initial adoption of the provisions of SFAS No. 157 did not result in any additional fair value disclosures for the Group.

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

Note 12. Cost of services

Cost of services includes the following:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Materials	242,729	152,594
Services of subcontractors	212,296	157,733
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**

Note 13. Stockholders' equity

Common stock

The number of issued and outstanding common stock was 146,865,243 shares with a par value of USD 0.01 per share as of June 30, 2008 and December 31, 2007.

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 12.7 billion and RUR 9.6 billion, respectively as of June 30, 2008 and December 31, 2007, pursuant to the statutory financial statements, which at the US dollar exchange rates as of June 30, 2008 and December 31, 2007 amount to USD 540 million and USD 391 million, respectively.

The Stockholders declared dividends of USD 200 per pre split common share for 2007 on July 16, 2007 totaling USD 10 million.

Earnings per share

The calculation of earnings per share was as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Net income available for common stockholders	132,671	78,545
Weighted average number of outstanding shares	146,865,243	125,000,000
Basic and diluted 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.

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

Note 14. Comprehensive income

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Net income	132,671	78,545
Other comprehensive income:		
Foreign currency translation gain	19,913	2,729
Comprehensive income	**152,584**	**81,274**

Note 15. Commitments and contingencies

Commitments

Commitments for provision of drilling services

Under the terms of sale and purchase agreement between Eurasia Drilling Company Limited and OAO NK LUKOIL, the Group has committed to rendering future drilling services to LUKOIL Group Companies.

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, 2005 through December 31, 2009. The estimated level of drilling to be performed by the Group during this five-year period was agreed at a minimum of 6.5 million meters. The estimated revenues for the developmental drilling services set out in the contract at the date of acquisition were RUR 73.19 billion (USD 3.1 billion). The prices for drilling services under these contracts are reviewed on an annual basis based on market prices.

Under the terms of the contract, drilling services of USD 391 million and USD 788 million will be provided by the Group during the remaining 6 months of 2008 and during 2009, respectively.

In the event of any agreed change in the scope of work or any failure to provide or fulfill the agreed scope of work by either party, Eurasia Drilling Company Limited or OAO NK LUKOIL, during the years 2005 to 2009, as well as in the event of any consequences arising out of such party's failure to fulfill its obligations, the defaulting party shall compensate to the other party any reasonable losses. Such compensation may be equal to the share of the reduced revenues, in the form of the provision or fulfillment of other types of contracted work, as well as any penalties applicable under the contract.

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.

Effective June 1, 2007 the Group entered into a significantly broader insurance program than was previously in place. This program covers the replacement cost of the majority of its rigs and other equipment and includes emergency recovery expenses and the cost of re-drilling. Management believes that under this new insurance program the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Note 15. 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 over the estimated remaining lives of the related assets or recognized immediately depending on their nature. 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. 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.

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 16. Related party transactions

The Group purchased well construction and related services from an affiliated company, PetroAlliance Services Company Limited ("PAS"), of USD 14.2 million and USD 13.8 million during the 6 months ended June 30, 2008 and 2007, respectively. Amounts payable to PAS were USD 7.7 million and USD 4.2 million as of June 30, 2008 and December 31, 2007, respectively. During the 6 months ended June 30, 2008 the Group provided drilling services to PAS of USD 2.7 million (6 months ended June 30, 2007: nil). Amounts receivable from PAS were USD 1.4 million and USD 0.8 million as of June 30, 2008 and December 31, 2007, respectively. A stockholder of the Company is the chairman of the Board of Directors of PAS.

Long-term loans from stockholders were USD 70 million as of June 30, 2008 and December 31, 2007 (refer note 9). Interest expense of USD 3 million and USD 2.8 million was recognized and paid on these loans during the 6 months ended June 30, 2008 and 2007, respectively.

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

Note 16. Related party transactions (continued)

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 USD 9.9 million and USD 1.5 million, respectively.

Note 17. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended June 30, 2008 and 2007, in accordance with SFAS No. 131, *"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, assess the performance of these operating segments. The operations of the off-shore drilling services segment commenced on December 20, 2006 upon the acquisition of EDC Shelf Limited (formerly LUKOIL Shelf Limited) and AstraOrient Limited (formerly LUKOIL Overseas Orient Limited). In 2007, the Company established a Russian subsidiary, OOO BKE Shelf, to operate its off-shore drilling services segment. It is planned to transfer all operations from EDC Shelf Limited to OOO BKE Shelf.

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, 2008

	On-shore drilling services (CIS)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	1,002,852	27,424	1,030,276
Net income	129,564	3,107	132,671
Total assets	1,508,422	69,836	1,578,258

For the six month period ended June 30, 2007

	On-shore drilling services (CIS)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	658,040	15,416	673,456
Net income	76,694	1,851	78,545
Total assets	754,658	49,176	803,834

Note 18. 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 18. 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.

	2008	2007
Sales for the six months ended June 30	757,474	550,824
Accounts receivable as of June 30, 2008 and December 31, 2007	156,326	176,350

Note 19. Compensation plan

In March 2008, the Company introduced an incentive plan for fifteen 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 is 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 participants may elect to receive compensation under this plan in the form of either cash or the Company's GDR's.