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, 2013

(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 interim consolidated 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

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Independent Auditors' Review Report

The Board of Directors
Eurasia Drilling Company Limited:

Report on the Financial Statements

We have reviewed the accompanying consolidated balance sheet of Eurasia Drilling Company Limited and its subsidiaries ("the Company") as of June 30, 2013, the related consolidated statements of comprehensive income, stockholders' equity and cash flows for the six-month periods ended June 30, 2013 and 2012.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with U.S. generally accepted accounting principles.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. 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. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with U.S. generally accepted accounting principles.

Usov A.I.

Director, power of attorney dated October 1, 2010 No. 52/10

ZAO KPMG

August 16, 2013

Moscow, Russian Federation

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

	Note	As of June 30, 2013 (unaudited)	As of December 31, 2012
Assets			
Current assets			
Cash and cash equivalents	4	691,951	305,333
Accounts receivable, net	5	579,873	528,813
Inventories		210,983	213,058
Taxes receivable		18,624	27,201
Deferred income tax assets		4,686	11,175
Other current assets	8	126,686	13,792
Total current assets		**1,632,803**	**1,099,372**
Property, plant and equipment	6	1,804,764	1,768,119
Long-term accounts receivable		121	256
Deferred income tax assets		1,410	2,156
Goodwill	7	104,721	107,998
Other non-current assets	8	16,270	57,154
Total assets		**3,560,089**	**3,035,055**
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		375,714	465,256
Advances received		14,196	2,288
Current portion of long-term debt	9	145,200	257,860
Taxes payable		94,774	90,276
Deferred income tax liabilities		10,463	6,499
Total current liabilities		**640,347**	**822,179**
Long-term debt	9	1,074,032	442,013
Accrued pension liability		15,577	15,598
Deferred income tax liabilities		94,766	92,639
Other non-current liabilities	18	692	-
Total liabilities		**1,825,414**	**1,372,429**
Stockholders' equity	13		
Common stock		1,469	1,469
Treasury stock, at cost		(2,897)	(1,652)
Additional paid-in capital		653,379	684,398
Retained earnings		1,289,110	1,072,369
Accumulated other comprehensive loss		(206,386)	(93,958)
Total stockholders' equity		**1,734,675**	**1,662,626**
Total liabilities and stockholders' equity		**3,560,089**	**3,035,055**

W. Richard Anderson
CFO of Eurasia Drilling Company Limited

August 16, 2013

LIMITED LIABILITY COMPANY
EURASIA DRILLING COMPANY LIMITED
CAYMAN ISLANDS

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

	Note	For the six months ended June 30, 2013 (unaudited)	For the six months ended June 30, 2012 (adjusted and unaudited)
Revenues			
Drilling and related services		1,682,545	1,569,045
Other sales and services		12,918	5,535
Total revenues		**1,695,463**	**1,574,580**
Cost of services, excluding depreciation and taxes	12	(1,085,640)	(1,054,942)
General and administrative expenses, excluding depreciation and taxes		(82,095)	(70,475)
Taxes other than income taxes		(88,574)	(70,139)
Depreciation		(136,496)	(109,693)
Gain (loss) on disposal of property, plant and equipment		295	(157)
Income from operating activities		**302,953**	**269,174**
Interest expense		(31,252)	(27,403)
Interest income		6,206	6,543
Currency transaction gain		1,987	2,206
Other income (expense)		1,354	(2,108)
Income before income taxes		**281,248**	**248,412**
Current income taxes		(44,152)	(35,053)
Deferred income taxes		(20,355)	(24,291)
Total income tax expense	3	**(64,507)**	**(59,344)**
Net income		**216,741**	**189,068**
Basic and diluted earnings per share of common stock (US dollars)	13	1.48	1.29
Other comprehensive loss:			
Foreign currency translation loss		(112,428)	(24,225)
Total comprehensive income		**104,313**	**164,843**

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

	Common stock	Treasury stock, at cost	Additional paid-in capital	Retained earnings	Accumu-lated other comprehen-sive (loss) income, net of tax	Total Stock-holders' equity
Balances as of December 31, 2011 (adjusted)	**1,469**	**(2,244)**	**680,198**	**793,111**	**(168,190)**	**1,304,344**
Net income (adjusted)	-	-	-	189,068	-	**189,068**
Other comprehensive loss (adjusted)	-	-	-	-	(24,225)	**(24,225)**
Total comprehensive income (adjusted)						**164,843**
Disposal of treasury stock	-	592	-	-	-	**592**
Incentive compensation plan	-	-	2,100	-	-	**2,100**
Balances as of June 30, 2012 (adjusted)	**1,469**	**(1,652)**	**682,298**	**982,179**	**(192,415)**	**1,471,879**
Balances as of December 31, 2012	**1,469**	**(1,652)**	**684,398**	**1,072,369**	**(93,958)**	**1,662,626**
Net income	-	-	-	216,741	-	**216,741**
Other comprehensive loss	-	-	-	-	(112,428)	**(112,428)**
Total comprehensive income						**104,313**
Purchase of treasury stock	-	(32,264)	-	-	-	**(32,264)**
Exercise of incentive compensation plan	-	31,019	(31,019)	-	-	**-**
Balances as of June 30, 2013	**1,469**	**(2,897)**	**653,379**	**1,289,110**	**(206,386)**	**1,734,675**

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

	Note	For the six months ended June 30, 2013 (unaudited)	For the six months ended June 30, 2012 (adjusted and unaudited)
Cash flows from operating activities			
Net income		**216,741**	**189,068**
Adjustments for non-cash items:			
Depreciation		136,496	109,693
Accrued interest expense		514	441
Deferred income taxes		20,355	24,291
(Gain) Loss on disposal of property, plant and equipment		(295)	157
Allowance for doubtful accounts receivable		1,350	(166)
Incentive plan expenses		-	2,100
All other items – net		49	724
Changes in operating assets and liabilities:			
Accounts receivable		(83,671)	(132,754)
Inventories		(12,740)	(36,494)
Taxes receivable and payable		24,843	14,814
Other current assets and liabilities		(126,774)	4,492
Accounts payable and accrued liabilities		25,988	47,841
Advances received		12,731	7,496
Net cash provided by operating activities		**215,587**	**231,703**
Cash flows from investing activities			
Purchases of property, plant and equipment including advances		(224,515)	(281,783)
Change in restricted cash	8	45,400	-
Proceeds from sale of property, plant and equipment		2,141	1,928
Loan principal collections		3,589	-
Net cash used in investing activities		**(173,385)**	**(279,855)**
Cash flows from financing activities			
Proceeds from issuance of long-term debt		810,800	-
Principal repayments of long-term debt		(310,225)	(71,163)
Dividends paid		(102,751)	(68,976)
Purchase of treasury stock		(32,264)	-
Net cash provided by (used in) financing activities		**365,560**	**(140,139)**
Effect of exchange rate changes on cash		(21,144)	(723)
Net increase (decrease) in cash and cash equivalents		**386,618**	**(189,014)**
Cash and cash equivalents at beginning of period		305,333	509,780
Cash and cash equivalents at end of period	**4**	**691,951**	**320,766**
Supplemental disclosures of cash flow information			
Interest paid (net of amount capitalized)		24,052	26,154
Income tax paid		19,701	20,404

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, 2012. 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 interim consolidated financial statements should be read in conjunction with the Group's December 31, 2012 annual consolidated financial statements. The interim consolidated financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2012 consolidated financial statements, except as stated in the "Changes in accounting policy" section in Note 2 below.

The results for the six-month period ended June 30, 2013 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 KRS, OOO SGC, OOO BVS Evrasia, OOO BPO Service and TOO BKE Kazakhstan Burenie, is the US dollar. The functional currency of OOO Burovaya Kompaniya Eurasia, OOO KRS, OOO SGC, OOO BVS Evrasia, OOO BPO Service 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, 2013 and December 31, 2012 was 32.7090 and 30.3727 Russian rubles to one US dollar, respectively.

Note 2. Recent accounting pronouncements

Changes in accounting policy

In December 2011, the FASB issued ASU No. 2011-11, *"Disclosures about Offsetting Assets and Liabilities."* This ASU requires entities to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. ASU No. 2011-11 is effective for annual reporting periods on or after January 1, 2013, and interim periods within those annual periods, and should be applied retrospectively. The Group adopted the requirement of ASU No. 2011-11 starting from the first quarter of 2013. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows and did not require additional disclosures.

Note 2. Recent accounting pronouncements (continued)

Changes in accounting policy (continued)

In February 2013, the FASB issued ASU No. 2013-02, "*Comprehensive Income (Topic 220*)," that requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. An entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period. ASU No. 2013-02 is effective for reporting periods beginning after December 15, 2012. The Group adopted the requirements of ASU No. 2013-02 starting from the first quarter of 2013. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

Recent accounting pronouncements

In March 2013, the FASB issued ASU No. 2013-05, "*Foreign Currency Matters (Topic 830*)," that requires entities to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income when a reporting entity ceases to have financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Additionally, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both (1) events that result in the loss of a controlling financial interest in a foreign entity and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon occurrence of those events. ASU No. 2013-05 is effective for annual reporting periods beginning after December 15, 2013, and interim periods within those annual periods, and should be applied prospectively.

Comparative amounts

In 2012 the Group changed its revenue recognition policy from units-of-delivery method to the percentage-of-completion method. This change was caused by the intention of the Group to convert from US GAAP to IFRS at some future date (refer to Revenue recognition section of Note 2 of the Group's December 31, 2012 annual consolidated financial statements).

The following prior period amounts have been adjusted to conform to the current period presentation.

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

Note 2. Recent accounting pronouncements (continued)

Comparative amounts (continued)

Consolidated statement of comprehensive income

The following are captions of the statement of comprehensive income for the six-month period ended June 30, 2012 as previously reported and adjusted:

	For the six months ended June 30, 2012 as previously reported	Adjustment	For the six months ended June 30, 2012 as adjusted
Revenue from drilling and related services	1,558,650	10,395	1,569,045
Cost of services	(1,048,835)	(6,107)	(1,054,942)
Taxes other than income taxes	(69,453)	(686)	(70,139)
Depreciation	(108,342)	(1,351)	(109,693)
Deferred income taxes	(23,841)	(450)	(24,291)
Net income	187,267	1,801	189,068
Basic (and diluted) earnings per share of common stock (US dollars)	1.28	0.01	1.29
Foreign currency translation loss	(24,722)	497	(24,225)
Total comprehensive income	162,545	2,298	164,843

Consolidated statement of cash flows

The following are captions of the statement of cash flows for the six-month period ended June 30, 2012 as previously reported and adjusted:

	For the six months ended June 30, 2012 as previously reported	Adjustment	For the six months ended June 30, 2012 as adjusted
Net income	187,267	1,801	189,068
Depreciation	108,342	1,351	109,693
Deferred income taxes	23,841	450	24,291
Change in Accounts receivable	(122,359)	(10,395)	(132,754)
Change in Inventories	(43,287)	6,793	(36,494)

Certain other prior period amounts have been reclassified to conform with current period presentation.

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.

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

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

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

Note 3. Income taxes (continued)

The majority of the Group's earnings for the periods ended June 30, 2013 and 2012 were taxed in the Russian Federation.

The Group's effective income tax rates for the periods ended June 30, 2013 and 2012 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.

Based on the Company's intercompany dividend policy the Company recognized deferred income tax on 20% of the undistributed earnings of its Russian subsidiaries from its on-shore segment earned during the reporting period and on 30% of the undistributed earnings of its Russian subsidiaries from its off-shore segment earned during the reporting period. The remaining balances of retained earnings of these companies is considered to be reinvested indefinitely. Management of the Company has the intention and the ability not to distribute these retained earnings.

Note 4. Cash and cash equivalents

Cash and cash equivalents include the following:

	As of June 30, 2013	**As of December 31, 2012**
Cash held in banks - Russian rubles	285,597	154,992
Short-term deposit - US dollars	263,544	2,805
Cash held in banks – US dollars	86,269	19,118
Short-term deposit - Russian rubles	56,180	128,295
Other	361	123
Total cash and cash equivalents	**691,951**	**305,333**

Note 5. Accounts receivable, net

Accounts receivable include the following:

	As of June 30, 2013	**As of December 31, 2012**
Trade accounts receivable	574,147	522,930
Advances given	18,685	18,460
	592,832	541,390
Allowance for doubtful accounts	(12,959)	(12,577)
Total accounts receivable, net	**579,873**	**528,813**

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

Note 6. Property, plant and equipment

Property, plant and equipment include the following:

	As of June 30, 2013	**As of December 31, 2012**
Machinery and equipment	2,100,162	2,121,620
Buildings	32,814	39,674
Vehicles	41,632	42,185
	2,174,608	2,203,479
Less: accumulated depreciation	(828,418)	(762,569)
Construction in progress	124,596	51,568
Advances given for property, plant and equipment	333,978	275,641
Total property, plant and equipment	**1,804,764**	**1,768,119**

During the six months ended June 30, 2013 and 2012 the Group capitalized interest in amount of USD 8 million and nil, respectively. This amount is included in Construction in progress as of June 30, 2013.

Note 7. Goodwill

The movement in goodwill was as following:

Goodwill as of December 31, 2012	**107,998**
Cumulative translation adjustment	(3,277)
Goodwill as of June 30, 2013	**104,721**

Note 8. Other current and non-current assets

The Group had restricted cash of USD 45.4 million included in other non-current assets as of December 31, 2012 (nil as of June 30, 2013). This amount collateralized the Company's issuance of commercial letters of credit.

The Group had additional restricted cash of USD 4.0 million as of June 30, 2013 and December 31, 2012. This amount collateralizes the Company's issuance of a guarantee for a customer.

The Group had bank deposits with original maturities that exceeded 3 months in amount of USD 95.0 million and USD 5.3 million included in other current assets as of June 30, 2013 and December 31, 2012, respectively.

(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, 2013	As of December 31, 2012
Debt of the Company			
ZAO UniCredit Bank	2017	210,800	-
Loans from stockholders	2014	50,000	50,000
Debt of the Company's subsidiaries			
4.875% Eurobonds, maturing 2020	2020	600,000	-
8.4% Russian ruble bonds, maturing 2018	2018	152,863	164,622
Alfa Bank	2013	56,865	122,478
OOO Rushong-hua	2016	84,288	52,321
OAO Sberbank of Russia	2014	30,573	43,899
OAO Sberbank of Russia	2015	24,458	26,339
OAO Sberbank of Russia	2013	9,385	20,214
Raiffeisenbank	2016	-	220,000
Total long-term debt		**1,219,232**	**699,873**
Current portion of long-term debt		(145,200)	(257,860)
Total non-current long-term debt		**1,074,032**	**442,013**

ZAO UniCredit Bank

Long-term debt with ZAO UniCredit Bank with an outstanding balance of USD 210.8 million as of June 30, 2013 is denominated in USD and bears interest at LIBOR+3.65% per annum.

Loans from Stockholders

Long-term loans from stockholders as of June 30, 2013 represent loans denominated in US dollars which bear interest at 5.8% and mature on or before December 31, 2014.

Debt of the Company's subsidiaries

Eurobonds

In April 2013, the Group issued non-convertible bonds totaling USD 600 million. The bonds were placed at face value with a maturity of 7 years. The bonds have a half year coupon period with a coupon yield of 4.875% per annum.

Russian ruble bonds

In June 2011, the Group issued 5 million non-convertible bonds with a face value of 1,000 Russian rubles each. The bonds were placed at face value with a maturity of 2,548 days. The bonds have a 182 days'coupon period and bear interest at 8.4% per annum.

Alfa-Bank

Long-term debt with Alfa-Bank with an outstanding balance of USD 56.9 million as of June 30, 2013 is denominated in Russian rubles and bears interest at 8.4% per annum.

Note 9. Long-term debt (continued)

OOO Rushong-Hua

Long-term debt with OOO Rushong-Hua with an outstanding balance of USD 84.3 million as of June 30, 2013 is denominated in Russian rubles at an effective interest rate of 5.0%-6.3% per annum.

OAO Sberbank of Russia

Long-term debt with OAO Sberbank of Russia with an outstanding balance of USD 30.6 million as of June 30, 2013 is denominated in Russian rubles and bears interest at 7.7% per annum.

Long-term debt with OAO Sberbank of Russia with an outstanding balance of USD 24.5 million as of June 30, 2013 is denominated in Russian rubles and bears interest at 10.15% per annum.

Long-term debts with OAO Sberbank of Russia with an outstanding balance of USD 9.4 million as of June 30, 2013 are denominated in Russian rubles and bear interest at LIBOR plus 4.1% per annum.

Raiffeisen Bank

Long-term debt with Raiffeisen Bank was denominated in USD, bore interest at 5.65% per annum and was paid before the maturity during the reporting period.

Unused credit lines

As of June 30, 2013 and December 31, 2012 the Group had two unused lines with ZAO UniCredit Bank. The first one is a revolving line of credit denominated in Russian rubles which at the currency exchange rate as of June 30, 2013 equaled to USD 89.3 million. This line of credit is short-term in nature with a duration of 90 days and availability period until November 2014. The second one is a revolving overdraft line denominated in Russian rubles which at the currency exchange rate as of June 30, 2013 equals to USD 16.1 million and is available until September 2015. Both lines are solely intended for issuing or extending unsecured commercial letters of credit for the purpose of acquiring new drilling rigs (used as security for these lines). As of June 30, 2013 both lines were undrawn.

As of June 30, 2013 and December 31, 2012 the Group also had a revolving multi-currency overdraft line with OAO Sberbank of Russia denominated in Russian rubles which at the currency exchange rate as of June 30, 2013 equaled to USD 91.7 million and is available until June 2017. It is solely intended for issuing or extending unsecured commercial letters of credit for the purpose of acquiring new drilling rigs. As of June 30, 2013, the line was undrawn.

As of June 30, 2013 and December 31, 2012 the Group had secured a five-year loan facility of USD 227 million with an interest rate of three month LIBOR plus 3.65% per annum arranged by ZAO UniCredit Bank. The grace period for the principal is three years. The term of the facility is through December 27, 2017. The loan agreement also provides an irrevocable renewable bank guarantee of USD 45.4 million. As of June 30, 2013 the undrawn amount was USD 16.2 million.

These unused lines of credit along with debts from OAO Sberbank of Russia are secured by property, plant and equipment with a carrying amount of USD 249.4 million and USD 264.9 million as of June 30, 2013 and December 31, 2012, respectively.

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

Note 9. Long-term debt (continued)

Maturities of long-term debts outstanding at June 30, 2013 are as follows:

July 1, 2013 to June 30, 2014	July 1, 2014 to December 31, 2014	2015	2016	2017	2018 and thereafter	Total
145,200	63,102	41,164	6,102	210,800	752,864	1,219,232

Note 10. Pension benefits

Components of net periodic benefit cost were as follows:

	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Service cost	882	774
Interest cost	720	652
Less expected return on plan assets	(156)	(175)
Amortisation of prior service benefit	277	158
Total net periodic benefit cost	**1,723**	**1,409**

Note 11. Fair value of financial instruments

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated financial statements. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements.

The fair value of long-term debt (Level 3) differs from the amount disclosed in the consolidated interim financial statements as of June 30, 2013. The fair value as of December 31, 2012 approximately equals to its value as disclosed in the consolidated financial statements as of December 31, 2012. The estimated fair value of long-term debt as of June 30, 2013 was USD 1,183 million, as a result of discounting using estimated market interest rates for similar financing arrangements. This amount includes all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and similar other main terms. During the six month period ended June 30, 2013, the Group did not have significant transactions or events that would result in nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

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

Note 12. Cost of services, excluding depreciation and taxes

Cost of services includes the following:

	For the six months ended June 30, 2013	**For the six months ended June 30, 2012 (adjusted)**
Services of subcontractors	448,986	471,506
Wages and salaries	260,818	236,997
Materials	198,035	198,274
Fuel and energy	100,224	77,913
Transportation of employees to drilling fields	23,405	20,396
Leasing and rent	8,309	11,045
Other	45,863	38,811
Total cost of services	**1,085,640**	**1,054,942**

Note 13. Stockholders' equity

Common stock

	As of June 30, 2013	**As of December 31, 2012**
Number of authorized and issued common stock, par value 0.01 US dollar each	146,865,243	146,865,243
Number of shares held as treasury stock	(78,967)	(77,857)
Issued and outstanding common stock, par value 0.01 US dollar each	**146,786,276**	**146,787,386**

The movement of treasury stock was as following:

Number of shares held in treasury as of December 31, 2012	**77,857**
Purchase of stocks	876,370
Exercise of incentive compensation plan	(875,260)
Number of shares held in treasury as of June 30, 2013	**78,967**

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 RUB 40.4 billion and RUB 36.4 billion, respectively as of June 30, 2013 and December 31, 2012, pursuant to the statutory financial statements, which at the US dollar exchange rates as of June 30, 2013 and December 31, 2012 amount to USD 1,235 million and USD 1,199 million, respectively.

At the Board of Directors meeting on December 12, 2012, dividends were declared for 2012, in the amount of USD 0.70 per share of common stock. Dividends payable by the Company of USD 103 million were included in "Accounts payable and accrued liabilities" in the consolidated balance sheet as of December 31, 2012. During the six months ended June 30, 2013 dividends were fully paid.

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

Note 13. Stockholders' equity (continued)

Earnings per share

The calculation of earnings per share was as follows:

	For the six months ended June 30, 2013	For the six months ended June 30, 2012 (adjusted)
Net income available for common stockholders	216,741	189,068
Weighted average number of outstanding shares	146,792,115	146,778,071
Basic earnings per share of common stock (US dollars)	1.48	1.29
Weighted average number of outstanding shares, after dilution	146,792,115	146,778,071
Diluted earnings per share of common stock (US dollars)	1.48	1.29

Note 14. Commitments and contingencies

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.

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.

Note 14. Commitments and contingencies (continued)

Contingencies (continued)

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 15. 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.

The Company’s General Counsel, Douglas Stinemetz, is a partner with The Stinemetz Law Firm. During the six months ended June 30, 2013 and 2012 the firm billed the Company for costs and expenses of USD 1.9 million and USD 0.8 million, respectively. Mr. Stinemetz is not otherwise paid for his services as the Company’s General Counsel.

Long-term loans from stockholders were USD 50 million as of June 30, 2013 and December 31, 2012 (refer to Note 9). Interest expense of USD 1.4 million and USD 1.4 million was recognized on these loans during the six month period ended June 30, 2013 and 2012.

As of December 31, 2012 the Group had USD 3.6 million of loan issued to OOO Kliver (the associated company). During the reporting period the loan was collected. The loan was denominated in Russian rubles and bore interest at 10%. Additionally during the reporting period the Group acquired services and equipment from OOO Kliver. In relation to these services the Group recognized expenses in amount of USD 2.6 million during the six months ended June 30, 2013 (2012: nil). As of June 30, 2013 the Group had accounts payable to OOO Kliver in amount of USD 2.0 million (as of December 31, 2012: nil) and advances paid to OOO Kliver in amount of USD 7.5 million (as of December 31, 2012: USD 5.4 million).

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

Note 16. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended June 30, 2013 and 2012, in accordance with ASC 280, *"Disclosures about Segments of an Enterprise and Related Information"*.

The Group has two segments: on-shore drilling conducted in the CIS and off-shore drilling conducted in the Caspian Sea that qualify as both operating and geographical. 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.

Detailed segment information is summarized as follows:

As of and for the six-month period ended June 30, 2013

	On-shore drilling services (CIS)	**Off-shore drilling services (Caspian Sea)**	**Consolidated**
Total revenues	1,614,499	80,964	1,695,463
Net income	185,785	30,956	216,741
Total assets	2,906,593	653,496	3,560,089
Goodwill	42,500	62,221	104,721

As of December 31, 2012 and for the six-month period ended June 30, 2012

	On-shore drilling services (CIS)	**Off-shore drilling services (Caspian Sea)**	**Consolidated**
Total revenues (adjusted)	1,488,921	85,659	1,574,580
Net income (adjusted)	159,415	29,653	189,068
Total assets (adjusted)	2,441,391	593,664	3,035,055
Goodwill	47,275	60,723	107,998

Note 17. Concentration of credit risk and sales

A significant proportions of the Group's operations which exceeded 10 percent of the Group's revenue are with LUKOIL Group companies and with Rosneft Group companies. As such the Group has significant concentrations of credit risk with these Groups.

Included in the Group's revenues and accounts receivables are the following transactions and balances with the major Customers:

	2013	**2012**
Revenues from LUKOIL Group for the six months ended June 30 (adjusted)	1,118,943	967,650
Revenues from Rosneft Group for the six months ended June 30 (adjusted)	295,973	378,316
Accounts receivable from LUKOIL Group as of June 30, 2013 and December 31, 2012	291,379	260,781
Accounts receivable from Rosneft Group as of June 30, 2013 and December 31, 2012	71,710	84,813

Note 18. Incentive Compensation plan

In March 2008, the Company introduced an incentive plan for certain members of management ("participants") for a five year period beginning January 1, 2008. Compensation under this plan was 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 ranged from 0% (where the increase in the stock price was less than 5%) to 100% (where the increase in the stock price was greater than 20%) for any given year during the five year period.

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

The Starting Price was determined at the beginning of each year based on an average quoted market price of the Company's shares on the London Stock Exchange ("LSE") for the last 20 trading days of the preceding year.

The rights to compensation under this plan vested yearly, immediately after the final trading day of the compensation year if the participants were 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 were 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 vested upon completion of each plan year and no restrictions apply thereafter. Therefore, no post vesting discount was applied.

The grant date fair value of the plan was estimated at USD 21 million by an independent consulting firm. The Company accrued the total amount as of December 31, 2012.

The participants could only receive GDRs, each representing one ordinary share of the Company. Therefore, the plan was equity classified. The Group recognized USD 2.1 million of compensation expense during the six month period ended June 30, 2012. As of December 31, 2012, USD 21 million was recognized on the Company's balance sheet as an increase in additional paid-in capital.

In accordance with the Company's incentive compensation plan participants of the plan were awarded 875,260 GDRs for their performance in 2012. One GDR represents one ordinary share.

In 2013 the Company introduced a new compensation plan to certain members of management effective January 1, 2013. The period of validity of the award is indefinite. The participants are eligible to receive cash awards and/or share awards (at the election of the Company) if the Company achieves a target increase in its earnings per share (EPS). The target EPS is set annually by the Board of Directors of the Company. Awards are payable to the Participants based on a percentage of their respective annual salary. The percentage ranges from 75% to 250% based on the grade level of management and on the range of EPS performance actually achieved between the target levels.

Note 18. Incentive Compensation plan (continued)

If the performance conditions are satisfied and provided that the Participant is still employed up to and through the vesting date, Awards are exercisable in three years from the date of grant, with the first 20% of such awards vesting immediately, next 30% and the remaining 50% vesting annually on each of the following two anniversaries thereafter.

The rights to compensation under this plan vest at December 31 of each award year if the participants are still employed or otherwise in good standing with the Company.

The grant date fair value of the plan for 2013 EPS performance is estimated at USD 12.4 million based on expected EPS performance assumed by management based on historical trends.

Related to this plan the Company recorded USD 3.2 million during the six months ended June 30, 2013 as compensation expense. As of June 30, 2013 USD 2.5 million and USD 0.7 million related to this plan are included in “Accounts payable and accrued liabilities” and “Other non-current liabilities” of the consolidated balance sheets, respectively. The Company has approximately USD 9.2 million of unrecognized compensation expense as of June 30, 2013 that will be accrued up to December 31, 2015.

Note 19. Subsequent events

The Company has evaluated subsequent events from the balance sheet date through August 16, 2013, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.