

The background of the entire page is a photograph of a drilling rig at night. The rig is a tall, dark metal structure with a complex lattice of beams and ladders. A white rectangular sign with the EDC logo is attached to the rig. The scene is illuminated by several bright lights, creating a high-contrast, industrial atmosphere. In the foreground, there are some blurred shapes, possibly vehicles or equipment, and a few small figures of people. The sky is a dark, deep blue, suggesting twilight or night.

Delivering on
our strategy...

...driving
opportunities

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Eurasia Drilling Company is the largest independent provider of drilling services in Russia.

We supply onshore integrated well construction services and workover services to national and international oil and gas companies and offshore drilling services in the Russian, Kazakh and Turkmen sectors of the Caspian Sea.

We have a strong growth record and our objective is to transform our already dominant Russian business into a significant international player.

Highlights

REVENUES

US \$ MILLION

1,382

EBITDA

US \$ MILLION

320

NET INCOME

US \$ MILLION

165

EARNINGS PER SHARE

US \$

1.22

OPERATING CASH FLOW

US \$ MILLION

409

Strategic

- Completed acquisition of a domestic directional drilling/telemetry business and two Western Siberian workover businesses
- Commenced operations as General Drilling Contractor on LUKOIL's Yu. Korchagin platform in the Caspian Sea
- Signed 3-year Framework Agreement with LUKOIL for 6.7 million metres (onshore Russia drilling volume commencing 2010)
- Further diversified client base, with our major customer accounting for 63% of total drilling volume versus 73% in 2008

Operational

- Land drilling fleet expanded to 207 through addition of 7 new rigs; land workover fleet increased to over 250 rigs through acquisition
- Greater than 3.75 million metres drilled onshore in 2009
- Sustained market share of approximately 26% of the drilling market (based on metres drilled)
- Improved drilling efficiency to 105.2 metres per drill crew per day; a 6.4% improvement over the 2008 level

Financial

- EBITDA margin improved to 23.1%
- Net income margin increased to 12.0%
- Net cash provided by operating activities increased to a record US \$409.1 million for the year
- Repurchased 3.0 million shares (in addition to approximately 9.6 million shares repurchased in 2008) of outstanding common stock

Our business at a glance

No.1

LARGEST DRILLING COMPANY

We are the largest independent drilling company in Russia, as measured by metres drilled.

Market dominance

We have established a dominant position in our markets, giving us a strong market share. We increasingly work with all the major national and multinational oil companies, and are focusing on expanding our operations geographically.

Onshore

Our onshore drilling services division provides integrated well construction and workover services to Russian and international oil and gas companies, primarily in Russia. At the end of 2009, our land fleet numbered 207 drilling and over 250 workover rigs.

Offshore

Our offshore drilling services division provides drilling and workover of oil and gas wells in the Caspian Sea, serving international E&P companies throughout the region. We currently operate one jack-up drilling rig, the *ASTRA*, and we are the general drilling contractor on the Yu. Korchagin platform.

OUR LOCATIONS



17.5^K

EMPLOYEES

EDC plus all subsidiaries, including newly acquired workover and directional drilling businesses.

458

RIG FLEET

Including 207 onshore and 1 offshore drilling rigs, and over 250 onshore workover rigs.

25.8%

MARKET SHARE

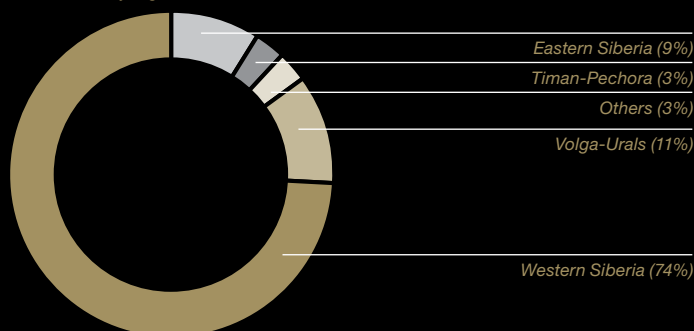
Onshore Russia as measured by metres drilled.

Our market

Russia's economy is dominated by the success of its oil and gas sector: It has one of the largest hydrocarbon reserve bases in the world. The potential for further production growth remains high while reserve replacement is a primary driver for the industry. Substantial output from both mature fields (contributing around 80% of current production) and a large number of greenfield projects that require significant investment in oilfield services, provide an extensive oil and gas market.

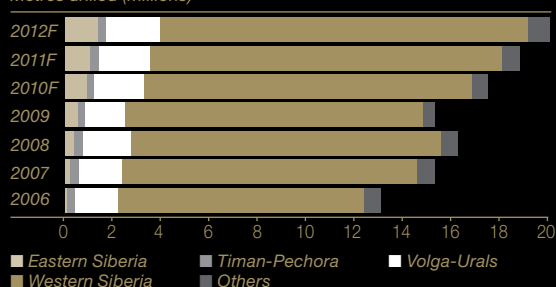
2009 RUSSIAN ONSHORE DRILLING MARKET

US \$ market by region



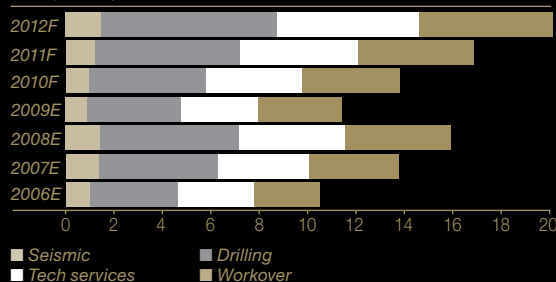
RUSSIAN ONSHORE MARKET

Metres drilled (millions)



RUSSIAN ONSHORE OFS MARKET

US \$ (billions)



Our advantage

Eurasia Drilling Company is strategically positioned to deliver sustained growth and superior performance to our shareholders. We have a proven record of improving the efficiency of our operations, expanding our market share and coverage, and delivering solid financial results. EDC has become the market leader by focusing on the needs of our customers and the development of our employees, and through continued investment in technology and process improvement.



Chairman's statement

We have again delivered very strong results and with the opportunities in our market are now fully focused on transforming Eurasia into a significant business, internationally.



The Earl of Clanwilliam
Chairman

23.1%

EBITDA MARGIN

An increase in margin of 1.6% versus 2008.

12.0%

NET INCOME MARGIN

1.5% margin increase over 2008.

US \$301^m

FREE CASH FLOW

EDC achieved record free cash flow in 2009.

2009 will be remembered as the year EDC pulled ahead of the pack and established itself as the clear leader among oil and gas drilling companies in Russia. In the face of skittish financial markets and nervous investors we concentrated on performance, giving our investors a total shareholder return of 386% for the year, as our stock moved from US \$3.50 per share at beginning of the year to exit at US \$17.00. By staying focused on our businesses we not only weathered the storm but strengthened our balance sheet while improving our margins and providing our services at a lower overall cost to our clients.

Our financial results for 2009 included the following:

- improved our EBITDA margin from 21.5% in 2008 to 23.1% for 2009;
- improved our net income margin from 10.5% last year to 12% for 2009;
- improved our net cash provided from operating activities to a record US \$409 million;
- improved our free cash flow to US \$301 million for 2009 (also a record for EDC);
- completed our stock buyback program; and
- maintained our dividend at US \$0.25 per share.

We believe few other competitors were able to improve margins and cash flows the way we did in the teeth of the financial storm which swept the world during 2009.

As a result of our excellent 2009 results, in December 2009 our Board of Directors declared a US \$0.25 per share dividend, which was paid in January 2010. EDC maintained its dividend at the same rate as that paid in 2008. Our expectation for 2010 is that our dividend will equal or exceed that paid for 2009.

In recognition of our confidence in EDC, our Board of Directors authorised management to continue our stock buyback program through the first half of 2009, culminating in us repurchasing approximately 12.5 million of our shares at a cost of approximately US \$4.70 per share. During April of 2010, after awarding some of these shares to our management employees pursuant to the terms of our Incentive Compensation Plan, we placed the balance of these shares back into the market at a price of US \$19.00 resulting in a gain for our continuing shareholders of approximately US \$179 million. Thus, we were able to provide a positive boon to our investors from the financial crisis.

Looking forward, we believe 2010 will be a year of increased drilling, increased revenues, increased margins and expansion into the international arena for EDC. The overall drilling market in Russia is expected to expand in 2010 and we will expand with it. Our medium term outlook remains bullish. We believe oil and gas drilling in Russia will continue to increase in response to ever accelerating depletion rates in the core producing areas of Western Siberia and Volga Urals. Additionally, some of the integrated Russian oil companies have announced plans to spin off or sell their in-house drilling companies. We may find one or more of these proposed spin-offs attractive and look forward to integrating them into our current operations. We remain confident in our market position where we think we have a multi-year lead which others will find difficult to overcome.

As one of the top five land drilling companies in the world, measured by the number of drilling rigs and by market capitalisation, we are uniquely positioned to deliver superior returns from the opportunity set available to us. In the same vein, we recognise that our size means we have an out-sized impact on the communities and the environments in which we operate. Accordingly, our goal remains to deliver our services as incident free as we can with as little impact on the environment as possible.

Once again, it has been my pleasure and privilege to be associated with the management team who have set a performance standard which others in the industry can only aspire to match.

The Earl of Clanwilliam
(Formerly Lord Gillford)
Chairman
June 25, 2010

5

TOP FIVE LAND DRILLING COMPANIES IN THE WORLD

Based on the number of drilling rigs and market capitalisation, EDC is one of the top five land drilling companies in the world.



**WWW.EURASIADRILLING.COM/
BOARD_OF_DIRECTORS**

For the composition of Board of Directors, refer to EDC's web site.

Chief Executive's strategic review



Alexander Yu. Djaparidze
Chief Executive Officer

Delivering on our strategy

We have a clear strategy which has delivered outstanding results, and which we are committed to supporting and developing as we continue to expand.

In the year just ended the employees and management of EDC proved to themselves and to the rest of the industry that our business model is both flexible and robust. Going into the year, among ominous warnings of imminent financial disaster, and faced with the reality that our largest client was going to cut its drilling by 21%, the Company substituted additional work from other clients, cut costs of every kind throughout the organisation and cancelled or deferred non-essential capital expenditures. This was done while maintaining good relationships with our vendors and honouring all of our commitments to our suppliers and banks. I cannot think of very many organisations that could have done so much in so short a time.

Specifically, we achieved the following:

- maintained our market share in the Russian market;
- diversified our client base such that our largest client accounted for only 63% of our metres drilled versus 73% in 2008;
- restructured our internal support services organisation;
- completed two acquisitions of complementary business lines;
- increased our drilling capacity by accepting delivery of eight new heavy drilling rigs, and increasing our drilling efficiency; and
- began drilling work on a newly constructed platform in the Caspian Sea.

At the time of our initial public offering in November of 2007 certain investors asked us to reduce our reliance on LUKOIL as a client. At that time LUKOIL accounted for about 80% of our metres drilled. During 2008 we were able to marginally increase our work for other clients but LUKOIL still accounted for 73% of our metres drilled. In late 2008, in response to LUKOIL's announcement that they would radically reduce their drilling requirements for 2009, we refocused on our other clients, principally Gazpromneft and Rosneft, and redeployed rigs and crews as they both decided to maintain their drilling levels. Accordingly, LUKOIL accounted for only 63% of our drilling volumes for 2009. Our projections show that they will account for a still smaller share in 2010.

As part of our continuing efforts to make our business more transparent, in 2009 we began to restructure the delivery of our internal support services, principally cementing, mud services and directional drilling services. The goal here is to encourage competition from third-party suppliers, in order to test our pricing points, while better controlling the delivery of these services in our well construction activities. Early indications are that we may want to add additional cementing and directional drilling capacity over the coming years. We currently provide most of our mud services and so expect this component to grow less rapidly in the near future.

Late in 2009 we purchased two well workover companies from LUKOIL which are situated in Western Siberia. We had previously purchased and successfully integrated two other, smaller, workover businesses, one purchased from Schlumberger and the other from LUKOIL. We believe the workover business is a natural complement to our well construction activities as the

geographical reach is similar and the services are primarily provided to the same users within our client companies. While the financial performance metrics for a workover business are somewhat less than those in the drilling business, the capital requirements are likewise lower. We believe we can improve the EBITDA and bottom line margins for these two businesses which will make them materially value accretive to EDC.

During 2009 we accepted delivery of eight new heavy rated drilling rigs that we had ordered and substantially paid for in prior years. With these new drilling rigs and with additional gains in our drilling efficiency obtained in 2009 we believe our drilling capacity is approaching 4.5 million metres. In addition, we made a conscious decision to preserve our staffing levels during 2009 as we foresaw the recovery in the drilling business in 2010. Thus, we have considerable operating leverage which will benefit us in 2010 and later years. One final priority for the forthcoming year will be to upgrade and modernise some of our 'more mature' drilling rigs and equipment. This simple good housekeeping measure will give the rigs extended lifetimes and increased reliability resulting in less downtime.

As a last point of note before I conclude, late in the year we were chosen by LUKOIL to be the general contractor for the drilling of the production and injector wells on their recently completed Yuri Korchagin platform in the northern Caspian Sea. We appreciate the confidence they have shown in us as this multi-year development is the very first production platform in the Russian sector of the Caspian Sea. The project is scheduled to last up to seven years and will encompass the drilling of over twenty producing wells and four injector wells. All of these wells will be drilled directionally, some of them with quite long horizontal sections. Looking ahead we are convinced the organic Russian drilling market will grow at a steady clip and that we will get our share of this growth. In addition we have recently begun our first foray out of the CIS as we are responding to tender offers to drill in Iraq and have recently taken the step of ordering five new drilling rigs for this purpose. Of particular note, in the second quarter of 2010 we began drilling for TNK/BP, which is a new drilling client for us. We hope we will be doing a great deal of drilling for them in the years to come. Lastly, we have retained investment bankers to help us assess whether we should acquire one or more of our Russian competitors. Several of them have announced they are for sale. We have ample 'dry powder' with which to finance any such acquisition and will be looking at them in turn. There are other inorganic opportunities available to us as well.

All of this is possible because of the attention to detail and guidance of the members of our Board of Directors and the long hours and commitment of our management team. But most of all, it is due to the hard work of more than seventeen thousand employees, delivering safe, high quality services to our clients.

Alexander Yu. Djaparidze

Chief Executive Officer
June 25, 2010

Key strategy drivers



Strategic review

Increase market share

1

We are determined to continue growing our market share in Russia, both organically and through targeted acquisitions.

Achievements

- EDC's market share in Russia (by metres drilled) grew one and a half times to 26% in 2009 from 17% in 2005.
- To date, all growth in our drilling market share has been organic.
- From 2007 to 2009 our drilling volumes for non-LUKOIL customers have increased significantly, with Rosneft volumes up 62% and Gazpromneft up 84%.

Opportunities

- Superior equipment, proven performance and extensive infrastructure, differentiate EDC from our competitors.
- Several Russian E&P companies are scheduling the sale of in-house drilling divisions during 2010.
- Certain independent drilling companies in Russia are also attractive candidates for acquisition.

Next actions

- EDC will continue to invest in expanding our fleet, while extending our lead over others by implementing state-of-the-art technology and enhancing service quality.
- We will leverage our capacity and efficiency advantages to gain market share with key customers.
- We are targeting the acquisition of up to two in-house and/or independent drilling companies.



Project

EDC is actively drilling development wells for Rosneft in their Vankor oil & gas field, the largest field to have been discovered and brought into production in Russia in the last 25 years. Two of our newest high-spec rigs are currently deployed at Vankor, contributing to our growing business with Rosneft.

Location

Turukhansky District, Krasnoyarsk Territory, East Siberia, Russia

Customer/Partner

CJSC Vankorneft, subsidiary of Rosneft

Strategic review

Growth of customer base

2

A key component of our growth strategy is to expand our customer base further, and to pursue new opportunities in new geographical areas where we can add value and operate efficiently.

Achievements

- We began work in 2009 for four new clients in Russia, including RussNeft and Samara-Nafta.
- For 2010 EDC won prestigious contracts for another four new clients, including Pechoraneft and Rusvietpetro.
- TNK-BP became a drilling client of EDC for the first time when we were awarded a two rig contract (beginning early 2010).

Opportunities

- Strong performance in our core areas has opened new markets and potential clients to EDC in Russia and the CIS.
- Our largest clients have successfully secured Exploration and Production agreements outside Russia, giving EDC the ideal platform for international expansion.
- Several potential new customers are planning for future activity in the Caspian Sea, including Total, Statoil, PetroResurs, Zhambai and Conoco (N-OpCo).

Next actions

- Continue to differentiate EDC from our competitors in our domestic markets to win work with new clients and in developing basins.
- Aggressively target new international markets in the Middle East, initially Iraq.
- Evaluate other strategic opportunities outside of Russia and the CIS.

Project

EDC successfully drilled a deep sub-salt exploration well utilising E-183, one of our new Lewco Heartbeat 450-tonne (2,000 horsepower) rigs. The well spudded in Q3 2009 and reached the planned depth of 5,200m more than 80 days (30%) ahead of schedule.

Location

Karpenskiy concession, Saratov Region of central Russia

Customer/Partner

Pre-Caspian Gas Company, subsidiary of Volga Gas



Strategic review

Expansion in offshore drilling

3

We are well positioned to build on our successful experience in offshore activity by seizing clear strategic growth opportunities, particularly those arising in the Caspian Sea.

Achievements

- EDC is the only Russian offshore drilling contractor.
- During 2009 the *ASTRA* jack-up rig was employed continuously from March, and is contracted for all of 2010.
- In November 2009 EDC began drilling operations on the Yuri Korchagin field platform.

Opportunities

- Numerous developments are being planned in the Caspian Sea, and new PSA's have recently been awarded in several sectors.
- Clients are actively seeking drilling rigs for these projects due to the current shortage of assets, particularly shallow and intermediate water depth rigs.

Next actions

- Engage with expanding customer base to forge long-term relationships.
- Commission new offshore drilling assets to tie-in with anticipated new contracts.
- Develop offshore extended-reach drilling capability.

Project

EDC is the General Drilling Contractor for the first phase of the Yuri Korchagin field development project. The field is being developed from an ice-resistant platform and many of the wells will require extended-reach drilling capabilities. This is the first permanent drilling and production facility in the Russian sector of the Caspian Sea.

Location

Northern Caspian Sea

Customer/Partner

LUKOIL



Strategic review

Expand workover capacity

4

Improving and expanding our capacity in workover, which is complementary and supportive to drilling, is central to achieving full-cycle balance in our business.

Achievements

- In late 2007 EDC acquired 28 rigs from Schlumberger, increasing the total fleet to 87 workover rigs.
- Workover Operations was organised into a separate division in 2008.
- In late 2009, EDC acquired two West Siberia workover businesses from LUKOIL, expanding our total workover fleet to over 250 rigs.

Opportunities

- Additional gains can be achieved by facilitating cohesion between our drilling and workover divisions, with regard to shared infrastructure, manpower, logistics & customers.
- Our newly expanded fleet allows us to pursue work for new clients and in new areas.
- Other in-house and independent workover businesses are becoming available for acquisition.

Next actions

- Conclude the integration of newly acquired LUKOIL businesses within existing EDC workover structure.
- Continue to improve efficiency and expand our served market for workover services.
- Target selected acquisitions of additional workover capacity.

Project

In late 2009 EDC acquired 100% interest in the Kogalym and Urai well workover divisions (KWWD and UWWD) of LUKOIL-Western Siberia. Combined production assets include more than 160 workover rigs and 107 active crews, supported from 7 operational facilities.

In addition to the sale and purchase agreement, LUKOIL and EDC signed a five-year Workover Framework Agreement covering pricing and work volumes for well workover, well reconditioning and well servicing operations pertaining to KWWD and UWWD activities.

Location

West Siberia

Customer/Partner

TPP 'Kogalymneftegaz' and TPP 'Urayneftegaz' divisions of OOO 'LUKOIL-Western Siberia', a subsidiary of LUKOIL



Strategic review

Broaden technology platform

5

Our focus is on accessing the best technology to take full advantage of our dominant position and expertise in our core drilling and workover services.

Achievements

- Re-organised EDC's internal cementing and drilling fluids materials & engineering services into a new entity (NTS).
- Purchased TGS, a Russian directional drilling company in late 2009.
- Acquired cementing business from Slavneft Megion (transaction completed 2010).

Opportunities

- Our customers reward efficient turnkey solutions reinforced by technological innovation.
- EDC's growing international reputation is attracting interest among global technology providers.
- Other in-house and independent service businesses are becoming available for acquisition.

Next actions

- Expand and improve core NTS service offerings.
- Promote strategic partnerships with global technology leaders.
- Evaluate potential acquisition targets of closely related services.



Project

In 2009 EDC formed the new entity 'OOO New Technology Services' (NTS) to provide drilling support services to both internal and external customers. Technologies and service lines have been added incrementally from both existing internal resources and through acquisition.

Location

Russia onshore

Customer/Partner

LUKOIL, Gazprom Neft, Rosneft and Slavneft

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

The following report represents management's discussion and analysis of financial condition and results of operations for the twelve month period ended December 31, 2009 and is intended to help our shareholders and other users of our financial statements better understand our operations and attendant financial results and current financial condition. This information is provided as a supplement to, and should be read in conjunction with, our 2009 audited consolidated financial statements and the accompanying notes, prepared in accordance with US GAAP. As used in this report, 'Company', 'we,' 'us,' 'our' and 'EDC' means Eurasia Drilling Company Limited and, where the context requires, includes our subsidiaries.

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

Nature of operations

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

We entered the onshore drilling and workover services business in December 2004 by acquiring substantially all of the onshore drilling and certain related assets of OAO LUKOIL. In December 2006, we entered the offshore drilling business by acquiring the offshore drilling business of OAO LUKOIL, which primarily consists of the *ASTRA*, a floating jack-up drilling rig located in the Caspian Sea. Based on data published by CDU TEK, a service that reports Russian oilfield information, we estimate that our share of the onshore drilling market in Russia was 22.4% for December 31, 2007, 26% for 2008 and 25.8% for 2009 as measured by the number of metres drilled. EDC also operates one of only three jack-up drilling rigs capable of drilling in the Caspian Sea, and as such we have the capacity to serve approximately one-third the jack-up market.

Our business is currently organised within two main business segments, onshore and offshore drilling services. Our onshore drilling services include the construction of production, exploration and appraisal oil and gas wells and certain other types of wells, including vertical, deviated and horizontal wells, ranging from a depth of approximately 1,200 metres to more than 5,000 metres. Through the onshore division we also provide a wide range of workover services, including sidetracking. We provide our onshore drilling services in several major onshore oil and gas regions of the Russian Federation, including Western and Eastern Siberia, Timan-Pechora and the Volga-Urals. During 2008 and 2009 we also provided onshore drilling services in Kazakhstan. Our offshore division constructs oil and gas exploration and production wells in waters with depths of up to 45 metres. We provide our offshore drilling services with our jack-up rig, the *ASTRA* and, near the end of 2009 began to provide platform drilling services in the Northern Caspian Sea

>3.75 million

METRES DRILLED IN 2009

EDC drilled over 3.75 million metres onshore in 2009.

GEOGRAPHICAL SPREAD

EDC provides onshore drilling services in all major oil provinces in Russia. We also operate onshore Kazakhstan and provide offshore drilling services throughout the Caspian Sea.

Positioned for growth



[WWW.EURASIADRILLING.COM/
FINANCIAL_INFORMATION.HTML](http://WWW.EURASIADRILLING.COM/FINANCIAL_INFORMATION.HTML)

Management's discussion and analysis of financial condition and results of operations can also be found on our web site.

to LUKOIL for its Yuri Korchagin development. In addition to LUKOIL, our customers include a number of the major Russian and international oil and gas companies operating in Russia and the Caspian Sea, such as Rosneft, Gazpromneft, TNK-BP, Total, Shell, KazMunaiGaz affiliates, PetroResource, Samara-Nafta and Naryanmarneftegaz, a joint venture between LUKOIL and ConocoPhillips.

Overview

Our 2009 financial and operating results include:

- EBITDA margin improved from 21.5% in 2008 to 23.1% in 2009;
- net income margin increased from 10.5% to 12.0%;
- net cash provided by operating activities increased to a record US \$409.1 million for the year;
- market share (based on metres drilled) maintained at approximately 26% despite our largest client cutting its drilling by 21% over 2008;
- metres drilled decreased by only 7.1% from 4,041,032 for 2008 to 3,752,612 for 2009;
- increased our total number of land drilling rigs to 207 from 201 at the beginning of 2009;
- diversified our client base such that our largest client accounted for only 63% of our metres drilled in 2009 versus 73% in 2008;
- repurchased another 3.0 million shares (in addition to approximately 9.6 million shares repurchased in 2008) of our outstanding common stock;
- successfully completed two acquisitions late in the year; and
- began platform drilling work for LUKOIL in its Yuri Korchagin field.

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

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

The first half of 2009 was marked by great uncertainty which made business planning rather difficult both for our clients and for us. While we managed to maintain healthy margins our reported results suffered mostly due to the devaluation of the Russian ruble versus the US dollar and from a decrease in the metres drilled in 2009 compared to 2008. Nonetheless, our financial position remained very strong throughout the period.

In response to the drilling market downturn, we reduced the number of land drilling crews to 109, as compared to 115 at the beginning of 2009. We also took delivery of new drilling rigs in 2009 which were ordered in prior periods and mostly paid for in 2008, so that the number of land drilling rigs increased to 207, as compared to 201 at the beginning of 2009.

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

OFFSHORE OPERATIONS

In 2009 we expanded our offshore operations by beginning platform drilling work for LUKOIL in its Yuri Korchagin platform.

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

Our success depends on our ability to charge clients market prices for our onshore and offshore drilling and other services. A significant proportion of our revenues are currently derived from services provided to the LUKOIL Group. The original LUKOIL Framework Agreement, which was in effect from 2005 through 2009, established a pricing adjustment formula applicable to the onshore drilling services we provide to LUKOIL. Such pricing formula effectively limited our ability to adjust the prices related to our onshore drilling services for LUKOIL in order to reflect fluctuations in the market prices occurring prior to the following annual price adjustment. However, we consider that the prices at which we provided services pursuant to the LUKOIL Framework Agreement were acceptable given the volume of services provided over the course of each year. In January 2010 we signed a new Framework Agreement with LUKOIL covering the succeeding three years and requiring us to drill a minimum of 6.7 million metres for LUKOIL during the period covered by the Agreement. In addition, we believe that the contracts we enter into with our other customers provide us with greater flexibility to adjust their contract prices to better conform to current market levels.

During 2009 we continued to diversify our customer base, with non-LUKOIL business increasing from approximately 27% in 2008 to approximately 37% of our metres drilled.

In late 2008, when it became apparent our business would face unprecedented challenges in 2009, we instituted a multi-phase crisis plan to control costs and reduce capital expenditures. These measures bore fruit in 2009 as our margins improved and our cash flow reached new heights.

In October 2008, we announced a stock buyback program in response to the unprecedented reduction in the market price for our shares caused by the virtual collapse of the world-wide credit and equity markets and wholesale rotation out of Russian equities. Between the start of the program and the end of the 2008 we repurchased approximately 9.6 million shares, representing approximately 6% of our shares outstanding before the commencement of the program. The repurchase program continued on into the first seven months of 2009 such that by the end of July 2009 we had repurchased a cumulative total of approximately 12.5 million shares of our stock, representing approximately 8.5% of our shares outstanding before the commencement of the program.

Early in 2010 we awarded approximately 719 thousand of these shares to our officers under our Incentive Plan. In April 2010 we placed the balance of the shares held in treasury in an accelerated book build transaction.

Reconciliation of net income to EBITDA

Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) is computed with reference to the Company's net income for 2009 and 2008 as follows (in thousands of US dollars, audited):

| | 2009 | 2008 |
|--|-----------------|---------|
| Net income | 165,490 | 220,933 |
| Income tax expense | 43,857 | 75,271 |
| (Gains)/Losses on disposal of PP&E | (382) | 4,722 |
| Currency transaction losses | 4,414 | 33,017 |
| Net gain on acquisitions of businesses | 2,849 | – |
| Interest income | (10,631) | (9,553) |
| Interest expense | 13,524 | 26,553 |
| Depreciation | 106,390 | 101,777 |
| EBITDA | 319,813 | 452,720 |

Outlook

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

For 2010 we expect our drilling volumes to increase by at least 5% versus 2009 and have given guidance to this effect. In response to this expected increase in drilling volumes we are modestly increasing our capital expenditure budget for 2010 as compared to 2009, and are continuing our focus on our payroll costs, inventory costs and the cost of third party services.

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



[WWW.EURASIADRILLING.COM/ FINANCIAL_INFORMATION.HTML](http://WWW.EURASIADRILLING.COM/FINANCIAL_INFORMATION.HTML)

Audited financial statements for 2009 can also be found on our web site.

6.7 million

METRES PER FRAMEWORK AGREEMENT

We have signed a new Framework Agreement with LUKOIL for 6.7 million metres to be drilled over a three year period beginning 2010.

12.5^m

TREASURY SHARES

We completed a share repurchase program of 12.5 million shares.

Driving our business forward

Many commentators believe Russian drilling volumes will increase in 2010 and later years as Russian production declines as a result of reductions in drilling volumes experienced in 2009, especially in Western Siberia. The actual reduction in drilling volumes for the whole country through December 31, 2009 was 5.8% compared to the equivalent period of 2008.

Recent appreciation in the Russian ruble with respect to the US dollar is expected to improve our reported results and cash flows for 2010 over 2009 as most commentators are confident the ruble will stay relatively strong in 2010 as compared to 2009.

During 2008 we invested in a number of recruitment, retention and personnel development initiatives in connection with the expansion of the number of our crews and our efforts to mitigate personnel attrition. While we reduced the number of our crews and resulting head-count in 2009, we did so in a ways that we believe maximise our ability to re-deploy crews as our business expands in 2010 and later years.

Late in 2009 we purchased two workover companies from LUKOIL situated in Western Siberia. As we integrate these businesses into the rest of our workover fleet we are confident that we can create meaningful value for our shareholders in this, newly expanded, service line. Also late in the year, we purchased a telemetry and directional drilling company which will allow us greater control over the delivery of this service to our clients and will also provide us with slightly improved margins.

Lastly, in the fourth quarter of 2009 we began drilling for LUKOIL on its Yuri Korchagin development located in the Northern Caspian Sea. This is expected to be a multi-year development utilizing cutting-edge drilling techniques and technologies. We believe development of this field will further showcase EDC as the premier drilling company in our areas of operation.

We anticipate 2010 will be a solid year of performance as we expect to increase sales and improve margins in most areas of our business.

5%

DRILLING VOLUMES

In 2010 we expect our drilling volumes to increase by at least 5%.

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

Results of operations

During 2009 we had solid financial performance with strong and balanced contribution across all geographies and business lines. The strong performance during 2009 reflected the extensive modernisation and upgrade of our equipment made in prior years, investment in training and development of our crews, continued improvement of our cost control initiatives and a disciplined approach to developing new business from existing customers.

Revenues

The following table sets forth a summary of our operating results for 2009 and 2008 (for additional information, please see the accompanying 2009 audited consolidated financial statements).

Consolidated statements of income for the periods ended December 31, 2009 and 2008 (all figures in thousands of US dollars, unless otherwise noted, audited):

| | 2009 | 2008 |
|--|------------------|------------------|
| Revenues | | |
| Drilling and related services | 1,362,222 | 2,071,683 |
| Other sales and services | 19,981 | 30,096 |
| Total revenues | 1,382,203 | 2,101,779 |
| Cost of services | (912,050) | (1,453,718) |
| Selling, general and administrative expenses | (94,861) | (122,011) |
| Taxes other than income taxes | (55,061) | (72,571) |
| Depreciation | (106,390) | (101,777) |
| Gain (loss) on disposal of property, plant and equipment | 382 | (4,722) |
| Income from operating activities | 214,223 | 346,980 |
| Interest expense | (13,524) | (26,553) |
| Interest income | 10,631 | 9,553 |
| Currency transaction (loss) | (4,414) | (33,017) |
| Net gain on acquisitions of businesses | 2,849 | |
| Other expenses | (418) | (759) |
| Income before income taxes | 209,347 | 296,204 |
| Income tax expense | (43,857) | (75,271) |
| Net income | 165,490 | 220,933 |
| Basic earnings per share of common stock (US dollars) | 1.22 | 1.51 |
| Diluted earnings per share of common stock (US dollars) | 1.22 | 1.51 |

27.6%

RUSSIAN RUBLE DEVALUATION

In 2009 the ruble devalued by 27.6% compared to the US dollar.

105 metres

DRILLED PER CREW PER DAY

In 2009 our average metres drilled per crew per day increased by 6% compared to 2008.

Our total dollar-expressed revenues decreased by US \$719.6 million, or 34.2%, to US \$1,382.2 million for 2009 from US \$2,101.8 million in 2008. The financial results of operations in US dollars for the 2009 were primarily influenced by ruble devaluation (the annual average US dollar exchange rate was slightly under 32 rubles as compared to slightly under 25 rubles in the respective period of 2008, a percentage change of 27.6%) and by a reduction in our number of metres drilled which decreased by 7.1% to 3.753 million metres for 2009, as compared to 4.041 million metres for 2008. The following sections provide more in-depth analysis.

Cost of services

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

| | 2009 | 2008 |
|--|----------------|-----------|
| Services of subcontractors | 320,379 | 482,366 |
| Wages and salaries | 222,603 | 294,042 |
| Materials | 218,718 | 463,679 |
| Fuel and energy | 63,581 | 93,305 |
| Transportation of employees to field locations | 28,143 | 43,307 |
| Leasing and rent | 10,857 | 17,350 |
| Other | 47,769 | 59,669 |
| Total cost of services | 912,050 | 1,453,718 |

Cost of services decreased by US \$541.7 million, or 37.3%, to US \$912.1 million for 2009 from US \$1,453.7 million for 2008. As described more fully below, our cost of services for 2009 was primarily affected by the change in the dollar/ruble exchange rate and to a lesser extent by a decrease in the volume of drilling services provided by us. Our cost of services as a percentage of total revenue decreased to 66.0% in 2009 from 69.2% for 2008. We believe this reduction is a reflection of our cost control efforts in 2009, which we believe are sustainable going forward, and by improvements in our drilling efficiency.

We generally subcontract with third parties to provide us with certain services in our onshore division where we do not perform these services ourselves. In our onshore division, services contracted from third parties include subcontracting for technological services; transportation services; preparatory services; well facility services; petrophysical services; well services; drilling motor and drilling navigation services; cementing services; and drilling bit services. Services of subcontractors were the largest component of our cost of services for 2009 and 2008. Services of subcontractors for 2009 were US \$320.4 million, or 35.1% of total cost of services, as compared to US \$482.4 million, or 33.2% of total cost of services, for 2008. The decrease in total dollars expended is primarily a function of the decrease in the dollar/ruble exchange rate and the decrease in our drilling volumes during 2009. The change as a percentage of total cost of services is caused by a minor change in the mix of services and is not considered material.

PRODUCTIVITY IMPROVES

The productivity of our new crews was improved in 2009 through the continuous implementation and utilisation of more advanced drilling technologies and the application of new standards to our drilling operations.

US \$13^m

DECREASE IN INTEREST EXPENSE

Interest expense decreased by US \$13 million in 2009 as compared to 2008.

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

Expenditures for materials have been primarily influenced by our customers' particular drilling programs and projects. Materials for our onshore and offshore drilling divisions primarily include spare parts, tubular goods, chemicals and cement and drilling tools. Materials costs for 2009 were US \$218.7 million, or 24.0% of total cost of services as compared to US \$463.7 million, or 31.9% of total cost of services for 2008. The decrease in total dollars expended is primarily a function of the decrease in the dollar/ruble exchange rate and by the decrease in our drilling volumes as compared to 2008. Another affecting factor is the changed scheme of casing pipe financing instituted by some of our major customers beginning in 2009. Prior to 2009 casing pipe was included in the price of well construction and in cost of sales. In 2009 certain of our major customers chose to finance a portion of their casing pipe and provide it to us.

Employee wages and salaries include costs of our personnel directly engaged in providing onshore and offshore drilling and other services. Employee costs include amounts we pay in support of our private employee insurance and medical funds. Such expenses do not include contributions which we make to a private pension fund or social taxes we pay to the Russian government. Wages and salaries for 2009 were US \$222.6 million, or 24.4% of total cost of services as compared to US \$294.0 million, or 20.2% of total cost of services for 2008. The significant decrease in total dollars expended is caused principally by the decrease in the dollar/ruble exchange rate. The increase in the percentage of total cost of services was due primarily to the overall reduction in the total cost of services caused by the change in treatment of casing pipe costs, as described above, and by the fact that we elected in the latter part of the year to forego planned layoffs as we saw our business improving in 2010.

Fuel and energy costs consist primarily of oil, lubricants and electricity. Fuel and energy costs for 2009 were US \$63.6 million, or 7.0% of total cost of services for 2009 as compared to US \$93.3 million, or 6.4% of total cost of services for 2008. The decrease in total dollars expended is primarily a function of the decrease in the dollar/ruble exchange rate. The change as a percentage of total cost of services is not material.

Costs relating to the transportation of employees to field locations primarily include transportation services related to the mobilisation and rotation of rig crews. Expenses relating to the transportation of employees to field locations for 2009 were US \$28.1 million, or 3.1% of total cost of services as compared to US \$43.3 million, or 3.0% of total cost of services for 2008. The decrease in total dollars expended is primarily a function of the decrease in the dollar/ruble exchange rate and by the lower volume of drilling we did in 2009. The change as a percentage of total cost of services is not material.

Leasing and rent costs consist primarily of the cost of renting drilling equipment. Leasing and rent costs for 2009 were US \$10.9 million, or 1.2% of total cost of services as compared to US \$17.4 million, or 1.2% of total cost of services for 2008. The percentage of total cost of services remained constant.

66%

COST OF SERVICES

Cost of services as a percentage of revenue decreased to 66.0% in 2009 from 69.2% in 2008, reflecting improvements in drilling efficiency and cost control.

Prudent financial management

The remaining portion of our cost of services, which we categorise as 'other', includes current repair expenses for fixed assets; license fees; insurance expenses; safety and environmental expenses; and maintenance expenses. Other expenses amounted to US \$47.8 million or 5.2% of our total cost of services for 2009, as compared to US \$59.7 million or 4.1% of our total cost of services for 2008. The decrease in the total amount is primarily caused by the change in the dollar/ruble exchange rate and by the lower volume of drilling we did in 2009. The increase in the percentage of total cost of service for 2009 is not considered material and is mostly due to fixed nature of most of insurance expenses (the major component of this cost element).

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by US \$27.1 million to US \$94.9 million for 2009, as compared to US \$122.0 million for 2008. As a percentage of total revenues, selling, general and administrative expenses increased to 6.9% compared to 5.8% for 2009 and 2008 respectively. The percentage increase is due to a bad debt recorded in 2009 on work done in prior periods which was determined to be uncollectable in 2009.

Taxes other than income taxes

Taxes other than income taxes include various local taxes, such as property tax, education tax, police tax, animal protection tax and small nation's tax. Taxes other than income taxes decreased by US \$17.5 million to US \$55.1 million for 2009 as compared to US \$72.6 million for 2008. The decrease in taxes other than income taxes was primarily attributable to the change in the dollar/ruble exchange rate. As a percentage of revenue, taxes other than income taxes increased to 4.0% during 2009 from 3.5% for 2008. This difference is not considered material.

Depreciation

Depreciation increased by US \$4.6 million to US \$106.4 million for 2009 as compared to US \$101.8 million for 2008. As a percentage of revenues, depreciation increased to 7.7% for 2009 from 4.8% for 2008. These increases were primarily the result of the significant capital expenditures in PP&E in 2007 and 2008, particularly the acquisition of additional drilling equipment and new drilling rigs that were placed into service in late 2008 and during 2009.

Disposal of property, plant and equipment

Gain on the disposal of property, plant and equipment for 2009 amounted to \$0.4 million as compared to a US \$4.7 million loss on the disposal of property, plant and equipment for 2008. This difference was primarily due to the disposal of scrap drill pipe, reclassified to fixed assets in 2008.

Income from operating activities

Income from operating activities decreased by US \$132.8 million to US \$214.0 million for 2009, as compared to US \$347.0 million for 2008. The decrease in income from operating activities was primarily attributable to the decrease in total volume of services we provided and to the change in the dollar/ruble exchange rate. As a percentage of revenues, income from operating activities decreased from 16.5% for 2008 to 15.5% for 2009. This percentage decrease is primarily due to percentages of total revenues increases in depreciation expense and an increase in selling, general and administrative expenses as described above.

Interest expense

Interest expense decreased by US \$13.0 million to US \$13.5 million for 2009, as compared to US \$26.6 million for 2008. The decrease is primarily attributable to a reduction in our short-term debt.

Income before income taxes

Income before income taxes decreased by US \$86.9 million to US \$209.3 million for 2009, as compared to US \$296.2 million for 2008. The decrease in income before income taxes was attributable to the factors described in more detail above.

Income tax expense

Income tax expense decreased by US \$31.4 million to US \$43.9 million for 2009, as compared to US \$75.3 million for 2008. The decrease in income tax expense was primarily attributable to the decrease in our income as well as the reduction of the Russian income tax rate from 24% to 20% effective January 1, 2009. Our effective tax rate decreased significantly from 25.4% in 2008 to 20.9% in 2009. Based on current tax laws, we expect our effective corporate income tax rate to be approximately 22% in the future.

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

Net income

As a result of the foregoing factors, net income decreased by US \$55.4 million to US \$165.5 million for 2009, as compared to US \$220.9 million for 2008.

Accounts receivable

Trade accounts receivable decreased by US \$39.0 million to US \$191.1 million as of December 31, 2009, from US \$230.1 million at the beginning of the year. The decrease in total dollars is primarily a function of the decrease in the dollar/ruble exchange rate. Expressed as the number of days outstanding, our receivable balance increased from approximately 47.4 days at the beginning of the year to approximately 48.1 days at the end of the year (both ratios are expressed in ruble terms). This increase is due to normal fluctuations in our collection cycle.

Materials for drilling and workover

The balance for materials for drilling and workover, a component of our inventory balance, decreased by US \$39.3 million from US \$144.2 at the beginning of 2009 to US \$104.9 at the end of 2009. Expressed as the number of days for the total inventory to turn over, the turnover rate at the end of 2009 was approximately 175 days, up from 139.6 days at the beginning of 2009, when expressed in ruble terms. This increase in turnover days is primarily attributable to the reduction in the balance of high-turnover casing pipe, much of which was supplied by the client in 2009.

Liquidity and capital resources

The Company's primary sources of liquidity are cash generated from operating activities and debt financing. The Company's plan going forward is to finance its capital expenditures, interest payments and dividends primarily out of operating cash flows as well as to finance a portion of its capital expenditures through existing and prospective future credit facilities, as well as by utilizing a portion of the proceeds from the offering of its shares which occurred in November 2007.

Cash flows

The table below shows our net cash flows from operating, investing and financing activities for the twelve month periods ended December 31, 2009 and 2008 (in thousands of US dollars, audited):

| | 2009 | 2008 |
|---|-----------|-----------|
| Net cash provided by operating activities | 409,118 | 309,851 |
| Net cash used in investing activities | (125,840) | (323,890) |
| Net cash used in financing activities | (137,059) | (22,645) |

Operating activities

Net cash provided by operating activities amounted to US \$409.1 million for the 2009, as compared to US \$309.9 million for 2008. This increase in cash flows provided by operating activities is principally due to a net positive change in the components of operating assets and liabilities for 2009 compared to 2008.

Investing activities

Net cash used in investing activities amounted to US \$125.8 million for 2009, as compared to US \$323.9 million for 2008. The decrease is mostly attributable to contracted investment policy and restrained investments in new property, plant and equipment for 2009 as compared to 2008.

Financing activities

Net cash used in financing activities amounted to US \$137.1 million for 2009, as compared to net cash used of US \$22.6 million for 2008. During both periods, dividends were paid and treasury stock was purchased. The primary difference between the periods is the result of principal repayments of both short-term and long-term of debt during 2009 as opposed to both proceeds and net issuance of debt during 2008.

Liquidity

The table below shows our cash and cash equivalents as of December 31, 2009 and 2008 (in thousands of US dollars, audited):

| | 2009 | 2008 |
|--|----------------|----------------|
| Short-term deposit – Russian rubles | 212,485 | 50,696 |
| Short-term deposit – US dollars | 115,789 | 180,328 |
| Cash held in banks – Russian rubles | 44,110 | 15,915 |
| Cash held in banks – other currencies | 60,000 | 32,424 |
| Other | 1,340 | 67 |
| Total cash and cash equivalents | 433,724 | 279,430 |

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

US \$433^m

CASH AND CASH EQUIVALENTS

At the end of 2009 our cash and cash equivalents balance was a record US \$433 million.

US \$409^m

CASH FLOWS

In 2009 we have improved our cash provided from operating activities to a record US \$409 million.

Strong working capital reserves

Capital expenditures

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

| | 2009 | 2008 |
|--|--------|--------|
| Advances given for property, plant and equipment | 15,779 | 22,637 |

The amounts represent cash advances for property, plant and equipment not yet received.

The table below presents the amounts invested in construction, which is still in progress as of the above described dates (in thousands of US dollars, audited):

| | 2009 | 2008 |
|--------------------------|--------|--------|
| Construction in progress | 73,997 | 70,433 |

Advances for property, plant and equipment decreased in 2009 as compared to 2008. This decrease reflects a reduction in our capital expenditures, due to declining oil prices in the second half of 2008 and the subsequent decrease in demand from our customers for new capacity.

In addition, at December 31, 2009, the Company had on deposit restricted cash of approximately US \$2.6 million to secure letters of credit opened for the purpose of purchasing new drilling rigs to be delivered in 2010.

Capital resources

As of December 31, 2009 and 2008 our short-term and long-term debt amounted to the following (in thousands of US dollars, audited) (please see our 2009 audited consolidated financial statements and the accompanying notes for more detail):

| | 2009 | 2008 |
|---|---------|---------|
| Short-term debt and current portion of long-term debt | 31,796 | 91,721 |
| Long-term debt | 150,379 | 171,138 |

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

US \$107^m

CAPITAL EXPENDITURES

In 2009 we made a conscious decision to minimise our capital expenditures and to maximise our free cash flows.

207

RIG FLEET

In 2009 we increased the number of land drilling rigs to 207 from 201 at the beginning of the year.

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

Other

Off-balance sheet arrangements

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

Related party transactions

Shareholder loans

In the period from November 2006 through March 2007, the Company entered into loan agreements with its shareholders to partially fund the investment program of our onshore drilling services division and the purchase of our offshore drilling services business. The aggregate principal amount of such loans was US \$70.0 million. The loans mature on December 31, 2011 and incur interest at the rate of 8.6% per annum. Interest expense of US \$6.0 million and US \$6.0 million was recognised and paid on these loans during 2009 and 2008, respectively. The loans are denominated in US dollars. Management believes the terms of these loans are no more onerous than those which would have been negotiated in an arms-length negotiation.

Capital lease obligations

Capital lease obligations for property, plant and equipment under capital lease as of December 31, 2009 and 2008 from an associated company, OAO LK Leasing – a company in which a substantial stockholder of EDC has a controlling interest, were nil and US \$3.1 million, respectively. Management believes the terms of these leases are no more onerous than those which would have been negotiated in an arms-length negotiation.

Legal services

The Company's General Counsel, Douglas Stinemetz, is a partner with The Stinemetz Law Firm (the Firm). During 2008 and 2009 the firm billed EDC for costs and expenses of US \$1.6 million and US \$1.3 million respectively. All services were billed at a discount to the Firm's normal billing rates while expenses were billed at their actual cost. In addition the amounts paid to The Stinemetz Law Firm include considerable third party expenses and charges for the services of other lawyers. Mr. Stinemetz is not otherwise paid for his services as the Company's general counsel. Management believes the amounts paid for these legal services are no more onerous than those which would have been negotiated in an arms-length negotiation for a similar level of service and expertise.

Earnings per share

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

US \$ **1.22**

EARNINGS PER SHARE

Basic earnings per share in 2009 were US \$1.22 per share, calculated as net income divided by number of shares outstanding.

SHARE PRICE PERFORMANCE

Total shareholder return was 386% for the year as our stock moved from US \$3.50 per share at the beginning of the year to US \$17.00 at the end of 2009.

Responsible dividend policy

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

| | 2009 | 2008 |
|--|-------------|-------------|
| Net income available for common stockholders ('000 US dollars) | 165,490 | 220,933 |
| Weighted-average number of outstanding shares (post split) | 135,121,647 | 146,126,927 |
| Basic earnings per share of common stock (US dollars) | 1.22 | 1.51 |
| Contingent shares of stock incentive program | 718.868 | – |
| Weighted-average number of outstanding shares, after dilution | 135,840,515 | 146,126,927 |
| Diluted earnings per share of common stock (US dollars) | 1.22 | 1.51 |

Dividend policy and year-end 2009 dividend declaration

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

In August 2007, we adopted a dividend policy according to which we expect to declare and pay dividends each year based on the Company's earnings and the cash needs of the business. Consistent with this policy, on December 15, 2009, we declared a dividend of US \$0.25 per share, which was included in 'Accounts payable and accrued liabilities' in the consolidated balance sheet as of December 31, 2009 and was paid in January 2010.

Certain factors affecting our results of operations

Changes in crude oil and natural gas prices

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

US \$ 0.25

DIVIDEND PER SHARE

We have maintained our dividend per share of US \$0.25.

DIVIDEND POLICY

In 2009 EDC maintained its dividend at the same rate as that paid in 2008. For 2010 our expectation is that dividend will equal or exceed that paid in 2009.

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

Productivity

Our results of operations are affected by the productivity of our crews, as measured by the number of metres drilled per active drilling crew. For the year ended December 31, 2009, each of our active drilling crews drilled on average approximately 38,400 metres as compared to 36,340 metres in 2008. Over the medium-term to long-term we expect this measure of our efficiency to improve due to the recent implementation and utilisation of more advanced drilling technologies and the application of new standards to our drilling operations. Advanced crew training and application of innovative technologies allowed us to both improve Rates of Penetration (ROP) and reduce Non-Productive Time (NPT). Examples of technological advancements included wider usage of Polycrystalline Diamond Compact (PDC) drill bits, introduction of new generation drilling motors, optimisation of BHAs and mud programs/properties, and real-time drilling navigation. The use of top-drives and four-step drilling mud cleaning systems on our high specification rigs further improved ROP and efficiency in the increasingly more challenging wells we are drilling.

Operating capacity

Our revenue growth can be negatively affected by the number of drilling rigs and drilling crews available to us. During 2008 our ability to increase our onshore business depended on our ability to procure sufficient numbers of new drilling rigs and modernise our existing drilling rigs. As such, during 2008 we purchased six drilling rigs and committed to purchase a further nine drilling rigs for delivery in 2009/10 (including one to be fabricated at our Kaliningrad facility.) During the first half of 2008, the global demand for new drilling rigs and rig

modernisation services substantially exceeded their supply. However, as 2008 progressed, the demand for new drilling rigs and modernisation services was substantially reduced as the demand for drilling services in most areas of the world, including in Russia, declined rapidly. Our drilling fleet as of December 31, 2009 consisted of 207 land drilling rigs and one offshore jack-up drilling rig in the Caspian Sea, as described above. At the end of 2009 we believed we had sufficient capacity with the addition of the new rigs to our drilling fleet and our increased drilling efficiency to drill close to 4.5 million metres on an annual basis.

Seasonality

Our revenue from onshore and offshore drilling services can be negatively affected by severe winter weather conditions in certain regions of Russia that make oil and gas operations difficult to non-operational during that season. For example, during January and February 2006, Russia experienced severely cold temperatures of approximately -45° Celsius in certain regions where we operate and the lost drilling time during such period amounted to approximately 90 days, which was equivalent to the loss of use of three drilling crews for one calendar month, and which contributed to delays in the mobilisation of our equipment and service commencement dates. Our revenue from onshore drilling services may also be negatively affected by spring thawing because drilling rigs, equipment and materials situated in certain regions can only be transported during winter when the ground is sufficiently frozen to create access roads. As a result, a portion of our business activity in the fourth and first quarter of each year is devoted to transportation of drilling rigs, equipment and materials and we

4.5^m

DRILLING CAPACITY

With the current rig fleet of 207, our drilling capacity is close to 4.5 million metres a year.

6%

DRILLED METRES PER CREW, PER YEAR

In 2009 there was an increase in productivity by 6% to 38,400 metres drilled per crew, per year compared to 36,340 in 2008.

Positive visibility of revenues

experience a decrease in revenues while continuing to incur costs. If we fail to complete a drilling contract on time or are unable to move our equipment due to adverse weather conditions, our ability to timely commence drilling at another site may be impeded. However, the effect of severe weather conditions on our operations depends on the specific type of service being provided. For instance, our onshore exploration drilling services are most affected by adverse weather conditions, as our drilling rigs, equipment, materials and crews that are required for such services are mobilised to remote locations accessible only by winter roads or helicopters. On the other hand, onshore production drilling services tend to be less affected by adverse weather conditions due to the cluster drilling method utilised by us, which involves drilling multiple wells from a single drilling pad. With respect to such drilling method, our operations may be temporarily disrupted by adverse weather conditions in the event we are unable to operate our rigs or mobilise required supplies to rig sites. With respect to our offshore division, we are generally unable to perform drilling services in the Russian and Kazakh sectors of the Caspian Sea during winter months due to the presence of ice. However, the Yuri Korchagin platform is ice-resistant, which will allow us to drill there year-round.

Market trends

After EDC acquired the onshore drilling assets from LUKOIL in December 2004, drilling volumes in Russia grew at a fairly steady pace through the end of 2007. According to data published by CDU TEK, during the 2005 through 2007 period total metres drilled onshore Russia grew by a Compound Annual Growth Rate (CAGR) of 17.6%. Drilling volume growth slowed in 2008, however, to 5.7% above 2007 levels. CDU TEK crude oil production figures for Russia show a similar trend, with 2.3% CAGR in total Russian oil production over the 2005 through 2007 period, and a 0.6% production decline in 2008 v. 2007. Considering the maturity of Russia's major oil producing fields, the drilling volume to oil production results of recent years as discussed above suggest that drilling volumes must continue to grow in order to stem future production declines.

During 2009, CDU TEK data indicated that overall Russian drilling volumes declined by 5.8% as compared to 2008, while oil production increased by 1.2% in 2009 versus 2008. This increase in production was primarily attributable to new Greenfield production that came on-stream in 2009. As discussed above, seasonality affects drilling operations in Russia, with drilling volumes achieved in the 2nd and 3rd quarters of each year being substantially higher than 1st and 4th quarter levels in a typical year. During 2008, drilling volumes surged more than is typical in the middle portion of the year due to both seasonality effects and the run up in oil prices. During 2009 the seasonal pattern was more modest, but still in evidence.

Change in mix of services

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

112 wells

HORIZONTAL WELLS DRILLED

In 2009 112 onshore horizontal wells were drilled compared to 106 in 2008.

OUR MIX OF SERVICES

Since 2005 we have expanded our services for our onshore division to offer a wider range of higher margin drilling and workover services.

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

For example, in calendar year 2008 we drilled 297,612 metres (106 wells) using horizontal drilling techniques, while in 2009 our horizontal drilling operations increased to 336,736 metres (112 wells), despite the fact that our overall metres were down by about 7.1%.

Price optimisation

Our revenue growth depends on our ability to charge clients market prices for our onshore and offshore drilling and other services. The original LUKOIL Framework Agreement, valid from 2005 through 2009, established a pricing adjustment formula applicable to the onshore drilling services we provided to LUKOIL. Such pricing formula effectively limited our ability to adjust the prices related to our onshore drilling services for LUKOIL in order to reflect fluctuations in the market prices occurring prior to the following annual price adjustment. However, we considered that the prices at which we provided services pursuant to the LUKOIL Framework Agreement were acceptable given the volume of services provided. In addition, we believe that the contracts we enter into with our other customers provide us with greater flexibility to adjust such contract prices to better conform to current market levels. In January 2010 we signed a new Framework Agreement with LUKOIL as described in more detail above.

Quantitative and qualitative disclosure about market risk

Interest rate risk

Please see our audited consolidated financial statements for 2009 for a description of our short-term and long-term debt and the associated interest rates and maturities.

Our exposure to market risk for changes in interest rates relates primarily to our long-term and short-term debt. The table below presents scheduled long-term debt maturities in US dollars and related weighted-average interest rates for each of the 12-month periods ending December 31 relating to debt obligations as of December 31, 2009 (in millions, except interest rate percentages). See table below.

As is further described in Note 11 of our December 31, 2009 audited consolidated financial statements, certain debt was originally contracted at below market interest rates. The schedule above assumes a market rate for such debt in the computation of its fair market value.

Currency risk

We are exposed to foreign currency exchange rate risks. The currency giving rise to these risks is primarily the Russian ruble. We use the Russian ruble for the majority of our operations, while the US dollar is our reporting currency. Foreign exchange gains and losses result from converting monetary and certain non-monetary assets and liabilities denominated in the Russian ruble into US dollar amounts at each balance sheet date. This includes any borrowings in a foreign currency. As of December 31, 2008, we had US \$192.9 million of a total of US \$262.9 million of our long and short-term debt denominated in the Russian ruble. As of December 31, 2009, we had

61%

RUBLE DENOMINATED DEBT

61% of our total debt as of December 31, 2009 is denominated in rubles.

31%

DECREASE IN TOTAL DEBT

In 2009 our debt balance decreased by 31% to US \$182 million, including both long-term and short-term debt.

| US \$ millions (except interest rate percentages) | Scheduled maturity date | | | | | | | Fair value |
|--|-------------------------|--------------|-------------|-------------|------------|---------------------|--------------|--------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 and thereafter | Total | June 30 2009 |
| Total long-term debt | 33.1 | 108.2 | 20.8 | 13.9 | 0.7 | 6.8 | 183.5 | 178.8 |
| Fixed rate | 24.0 | 90.0 | 2.6 | 0.8 | 0.7 | 6.8 | 124.9 | 120.2 |
| Average interest rate | 7.8% | 8.0% | 8.3% | 8.1% | 8.0% | 8.0% | 58.6 | 58.6 |
| Variable rate ¹ | 9.1 | 18.2 | 18.2 | 13.1 | | | | |
| Average interest rate | 4.4% | 4.4% | 4.4% | 4.4% | | | | |

¹ Based on the LIBOR rate at the end of 2009, which rate may fluctuate in later periods.

Active risk management

US \$112.2 million of a total of US \$182.2 million of our long and short-term debt denominated in the Russian ruble. In addition, the results of our operations are impacted by transactions entered into in currencies other than the Russian ruble, and a fluctuation in the Russian ruble/US dollar exchange rates will result in a change in the recognised revenues and expenses associated with such transactions. Furthermore, while the majority of our revenues are denominated in the Russian ruble, some of our costs, including some of those associated with purchases of foreign manufactured land rigs, are denominated in the US dollar and other currencies. Any significant foreign currency exchange rate fluctuations (both short- and long-term) could have a material adverse effect on our business, financial condition and results of operations. In addition, in 2008 certain of our intercompany debt was denominated in a currency other than the functional currency of the debtor company (in all cases the debtor companies are and were 100% owned members of our consolidated group.) During 2008 we recognised a loss of US \$48.6 million on such intercompany obligations as a currency transaction loss in the consolidated statement of income. In 2009 the Company extended the term of such intercompany debt, thereby prospectively modifying the accounting treatment so that the comparable affect on the income statement was not material.

Concentration of credit risk

We have a concentration of credit risk since one customer made up approximately 68.6% of our sales during 2009 (74.0% for 2008). In order to reduce exposure to this credit risk we have been increasing our business with other, unrelated, clients and continue to monitor our account receivable balances closely. We perform periodic credit checks on our customers and, as a result, did not have any material bad debt expense from our operations during 2008 but did have a bad debt of approximately \$11.2 million recognised in 2009 for work performed in prior periods and determined to be uncollectible in 2009. Our allowance for doubtful accounts stood at US \$18.4 million at the end of 2009 (US \$6.8 million for 2008), which amount was considered adequate. Our cash and cash equivalents are placed with major banks within Russia, Switzerland and the United Kingdom.

Significant accounting policies

Our consolidated financial statements are affected by the accounting policies used by management during their preparation. The detailed discussion of our significant accounting policies is provided in Note 2 of our December 31, 2009 audited consolidated financial statements.

CURRENCY RISK

The majority of our revenues are denominated in the Russian ruble while the US dollar is our reporting currency.

Corporate responsibility

At EDC we believe that ethical, economical and socially responsible operations are fundamental to our business and to our long-term growth. It is the way we work.

- We observe and promote ethical business practices and advocate respect and tolerance by and for all people.
- Our business decisions are made to ensure long-term growth for the benefit of our employees, customers and investors.
- We care about where we work and together with our employees, local people and government bodies we develop constructive solutions to shared problems and promote suitable projects and initiatives that are of long-term benefit to the local communities.
- We are committed to high standards in occupational health and safety and to protecting the environment.

Commitment to our people

With more than seventeen thousand employees we are focused on providing them with a safe and high quality working environment backed up by a first class compensation and benefits package. In addition, we have a 'Collective Bargaining Agreement' that governs social and labour relations for more than 80% of our workforce.

One of the key components of employees' social protection is the supplementary pension plan provided by LUKOIL-Garant, a non-state pension fund to which we contribute on behalf of our employees.

We place special emphasis on developing young specialists. An annual contest held by EDC identifies young, creative, employees and supports their development while encouraging innovative projects.

The best projects of prior years are now implemented within EDC's operations.

In 2009 the young specialists contest was hosted by our Perm branch at the picturesque Demidkovo hotel. Sixteen contestants presented their projects covering various aspects of EDC operations and business activities, including environmental responsibility. Winners and all contestants received certificates and souvenirs.

On an annual basis the Ministry of Energy of the Russian Federation and the NS 'Integraziya' Society organise a contest for the best youth projects covering Russia's oil and energy sector issues. Winners of the 2009 EDC competition took part in the national contest for the first time in March 2010, and three projects out of six submitted were awarded prizes, including the first place award.

Commitment to HSE

Our 143 strong HSE group promotes our Health, Safety and Environmental Protection policies and procedures to all our employees and works to ensure we comply with all government laws and regulations.

In September 2008, BKE, our Russian onshore operating subsidiary, received compliance certificates for ISO 14001:2004 (Environmental Protection Management System) and OHSAS 18001:2007 (Health and Safety Management System). In September 2009, a supervisory audit was carried out by Bureau Veritas Certification, an independent certification body, and BKE was recertified as compliant with the requirements of the above mentioned standards.

Committed to social responsibility



In June 2007, BKE Shelf, our offshore operating subsidiary, was audited and recognised as complying with the Quality Standard ISO 9001:2000 (Russian Register Certification System) under the IQNET program. Early in 2010 BKE Shelf was audited and recognised as complying with the revised Quality Standard ISO 9001:2008.

Commitment to the community

We are involved in several projects in the various communities where we operate, aimed at improving the wellbeing of the local population. Our support includes financial assistance for the disabled, low-income families, disabled and elderly war veterans, and disadvantaged, disabled and orphaned children.

The charities we supported in 2009 included the Government of Moscow Charity Fund, to which we provided financial assistance in arranging holidays for disabled children, and to publish special books for the blind. We took part in the charity event 'Not Only Kids', organised by the 'All Together Charity Fund'. We contributed to the 'Here and Now Orphan Charity' fund's 'I Want to Learn' event for children from patronage families, and we supported the charity fund 'Sozidanie'. We cooperate with 'Pomogi.org' charity fund which addresses childrens' urgent medical needs, providing financial assistance for medical treatment for children with cerebral paralysis. We also support specialty schools, including a boarding school in Travino Settlement and the 'Ulitka' Rehabilitation Centre for teenaged girls, both in Astrakhan.

EDC supports the development of youth sport in the regions of our operations, and we strive to enrich the cultural life of the communities. As an example, we sponsor a puppet show for children at one of the Astrakhan sanatoriums, and we sponsor children's participation in local talent contests.

We have a long standing cooperation with many educational institutions to provide internships for students at our facilities. In 2009 we provided over 500 places for university and college students. Educational institutions involved include: Kostroma State Technical University, Ufa State Aviation and Technical University, Orenburg State University (Buguruslansk branch), Tyumen State University, Ufa State Oil and Technical University, Tyumen State Oil and Gas University, Saratov State University of N.G. Chernyshevsky, Zhirnovsk Oil College, Samara State Technical University, Perm State Technical University, SPO Ishimbaisk Oil College, Perm Oil College, Perm State University, Chaikovsky Industrial and Humanitarian College, Osa Agricultural College, Russian State University of Gubkin, Volgograd Academy of Government Service, the Modern Humanitarian Academy of Volgograd, Irkutsk State Technical University, North-Caucasus State Technical University and Uhta State Technical University.

Commitment to our investors and customers

We do all this while never losing sight of the fact that, fundamentally, we are here to run a successful business that makes a profit and invests for continued long-term growth.

143

COMMITTED TO HSE

Our 143 strong HSE group promotes our Health, Safety and Environmental Protection policies and procedures to all our employees.

500

INTERNSHIPS

In 2009 we provided over 500 internship placements for university and college students at our facilities.



Corporate governance report

The Company is committed to observing high standards of corporate governance. This report describes how the Company has applied the Principles of Good Governance as set out in the Combined Code on Corporate Governance, issued by the UK Financial Reporting Council in June 2008 (the 'Combined Code'), except where indicated otherwise within this report. While the Company as a legal entity incorporated in the Cayman Islands is not subject to UK corporate governance requirements per se, the Company nevertheless intends to comply with established practices under the UK Combined Code, wherever reasonably possible.

The Board

The Board of Directors of the Company consists of seven Directors. Six out of the seven members of the Company's Board of Directors serve in a non-executive capacity. Mr. Djaparidze, the seventh Director, is also the Company's Chief Executive Officer. The Board considers five of these six non-executive Directors (Earl of Clanwilliam (formerly Lord Gillford), who also serves as Chairman, Mr. Huck, Mr. Gremillion, Mr. Hansen and Mr. Kalyuzhny) to be independent for purposes of the Combined Code.

One non-executive Director, Mr. Shokhin, is not strictly independent for the purposes of the Combined Code, since he is also a member of the Board of Directors of two customers of the Company, LUKOIL and TNK-BP. Nevertheless, the Board does not consider that this fact undermines his independence. In fact, the Board considers that, as a result of his service on these other boards, he brings particular expertise to the Company's Board of Directors since he has a greater industry specific knowledge.

The Board considers and will continue to consider its composition from time to time. The Remuneration and Nomination Committee of the Board on March 1, 2009 has adopted a policy as to how best consider and nominate members of the Board. The Board may choose to deviate from the strict requirements of the Combined Code in relation to Board composition on a case-by-case basis if it is considered in the best interests of the Company, consistent with industry practice generally or required by applicable Cayman Islands law.

In accordance with the Articles of Association, the Company's Board of Directors is divided into three classes. Each Director holds his office for a term of three years, such terms being staggered in accordance with resolutions adopted at the Company's Annual General Meeting held September 9, 2009. The initial terms of the initial Board of Directors of each class expire at the annual general meeting of Shareholders: Class I, which comprises two Directors, expired and was re-elected in 2009; Class II, which comprises two Directors, expires and will be submitted for re-election at the forthcoming Annual General Meeting of the Shareholders in 2010; and Class III, which comprises three Directors, will expire and be submitted for re-election at the Annual General Meeting of the Shareholders in 2011. At each Annual General Meeting of the Shareholders of the Company, one class of directors will be elected for a full term of three years to succeed that class of directors whose terms are expiring. The three year cycle relating to the appointment and tenure of each class of directors referred to above is a continuous rolling cycle, commencing for the second time in the year following the third year of the cycle. Shareholders may only appoint or remove directors at such time in the cycle as they are due for re-election.

Mr. Martin Hansen was re-elected as Class I Director on September 11, 2009. Mr. Albert Vladimirov stepped down as Class I Director on September 11, 2009, and the Annual General Meeting of the Shareholders elected Mr. Victor Kalyuzhny as Class I Director on the same day.

| Name | Age | Position | Expiration of term |
|--------------------------|-----|------------------------------------|--------------------|
| Earl of Clanwilliam | 48 | Chairman of the Board of Directors | 2011 |
| Alexander Yu. Djaparidze | 54 | Director | 2011 |
| L. Todd Gremillion | 62 | Director | 2010 |
| Martin E. Hansen | 68 | Director | 2012 |
| Rene Huck | 62 | Director | 2010 |
| Victor Kalyuzhny | 63 | Director | 2012 |
| Alexander Shokhin | 58 | Director | 2011 |

Brief biographies of the executive and non-executive Directors are set out opposite. The biographies illustrate that the Directors have a range of business and financial experience that is important and relevant to the management of the Company. The role of Chairman of the Board and Chief Executive Officer are clearly defined and separate.

Except as otherwise noted, each member of the Board of Directors was appointed to the Board on October 15, 2007.

Earl of Clanwilliam. Earl of Clanwilliam has been a member of the Board of Directors of OJSC Polyus Gold since March 2006. Earl of Clanwilliam founded and is currently a director of The Policy Partnership Limited. Since 1997, Earl of Clanwilliam has served as a member of the Board of Directors of the Benevolent Society of St. Patrick, and since 2005, he has served on the Advisory Council of the Ukrainian British City Club. Earl of Clanwilliam was a Director of Ballot Box Limited from 2000 to 2003, and Chairman of the Board of Directors (without executive powers) of Cleveland Bridge UK Ltd from 2000 to 2004. Earl of Clanwilliam is a graduate of Eton College.

Alexander Yu. Djaparidze. Mr. Djaparidze has been a member of the Board of Directors of BKE since 2005 where he served as the Chairman from 2005 until present. From June 1995 to February 2007, Mr. Djaparidze served as President of PetroAlliance. Prior to joining PetroAlliance, he held various executive positions at CGE, and served as Managing Director of MD SEIS. Mr. Djaparidze holds a degree in Mining Engineering and Geophysics from the Gubkin Russian State University of Oil and Gas. Mr. Djaparidze is a Candidate of Technical Science from the Gubkin Moscow Institute of Oil and Gas. Mr. Djaparidze was awarded the Russian Federation Government prize for special achievements in science and technology.

L. Todd Gremillion. Mr. Gremillion has been a member of the Board of Directors of BKE since 2005, where he is also a member of BKE's Strategic Planning Committee. From May 1991 to April 2006, he was a partner of Akin, Gump, Strauss, Hauer & Feld, an international law firm, where he specialised in matters involving the oil and gas industry. Mr. Gremillion received his bachelor and law degrees from Louisiana State University.

Martin E. Hansen. Mr. Hansen served as our Chief Financial Officer from May 1, 2004 until November 17, 2007 and has served as a member of our Board of Directors since January 1, 2005. He was formerly a member of the Board of Directors of BKE from 2005 to 2007. From 1999 to 2002, Mr. Hansen was Chief Financial Officer of PetroAlliance. Mr. Hansen holds a Bachelor of Business Administration degree from the University of Iowa.

Rene Huck. Mr. Huck is retired from Schlumberger where he has held a variety of senior positions over the last 15 years, most recently as Vice-President QHSE and Industry Affairs. Before joining Schlumberger, Mr. Huck was CEO of the drilling contractor Techfor – Cosifor. Prior to that, he worked for 16 years as an engineer and operations manager at TOTAL. Mr. Huck has been a member of the Board of Directors of BW Offshore, an FPSO company, since 2006, and also served on the Board of Directors of PetroAlliance from 2004 to 2007. Mr. Huck is a Mechanical Engineer from Ecole Centrale in Nantes, France and a Petroleum Engineer from the French Petroleum Institute in Paris, France.

Victor Kalyuzhny. Mr. Kalyuzhny has been a member of the Board of Directors since September 2009. Mr. Kalyuzhny has recently retired from a position of the Extraordinary and Plenipotentiary Ambassador of the Russian Federation in the Republic of Latvia. During the 1970s and 1980s he occupied a number of key positions at Tomskneft's Strezhevoineft. From 1990 to 1993, Mr. Kalyuzhny worked in Vietnam as Director of Oil and Gas Extraction for VietSovPetro. He subsequently became First Deputy Director of Tomskneft, and from 1994 to 1997 was first Vice President of Eastern Oil Company. In 1997 Mr. Kalyuzhny became a Deputy of the Tomsk State Duma. In 1998, he was appointed First Deputy Minister for Fuel and Energy, becoming Minister of Fuel and Energy of Russia in 1999. From 2000 to 2004 Mr. Kalyuzhny was Russia's Deputy Foreign Minister and Special Presidential Representative for Caspian Sea Status Settlement. Mr. Kalyuzhny graduated from Ufa Oil Institute.

Alexander Shokhin. Mr. Shokhin has been a member of the Board of Directors of LUKOIL and Chairman of its Personnel and Remuneration Committee since January 2005. He is also a member of the Board of Directors of TNK-BP since February 2009. Mr. Shokhin has been the President of the State University-Higher School of Economics since 1995. He also has been President of the Russian Union of Industrialists and Entrepreneurs since 2005. Mr. Shokhin was Chairman of the Supervisory Council of Renaissance Capital Investment Group from 2002 until 2005. From 1994 until 2002 he was a Deputy of the State Duma, where his last position was the Head of the Duma Committee on Credit Institutions and Capital Markets. Mr. Shokhin holds a degree in Economics from Moscow State University. Mr. Shokhin is a Doctor of Economic Science, Professor and Member of the Russian Academy of Natural Sciences. For merits before the state, long-term fruitful work and contribution in the development of Russian industry and entrepreneurship and strengthening of friendship and cooperation among nations the President of the Russian Federation awarded Mr. Shokhin the Order of Honor (1997) and the State Order 'For Merits before the Fatherland' of 4th degree (2008). Also recently Mr. Shokhin won a 'Person of the Year' Grand Prix and a 'Glory of Fatherland' Order in an annual international Person of the Year award ceremony for 2008, organised by RosBusinessConsulting (RBC), a Russian Information Agency.

Corporate governance report

continued

Information on Board meeting attendance

During 2009 the Company's Board of Directors held four meetings, on March 26, 2009, June 24, 2009, October 15, 2009 and December 14, 2009. All the Board members attended all four meetings, either in person or by telephone. The overall attendance rate by Directors was 100%.

Information on Board authority

The Company is controlled through its Board. The Board's main roles are to manage the Company with the objective of maximising shareholder value, setting the general business strategy of the Company and overseeing the decision-making and risk management processes within the Company. The Board is governed by its Charter, which is posted on the Company's web site.

The Board reserves to itself certain key matters to approve or monitor, such as the Company's business plans, annual budget, significant capital expenditures, as well as the Company's operating and financial performance. The Directors are provided with regular information on the Company's performance and activities and meet on a regular basis. Meetings include a formal schedule of matters specifically reserved for the Board's decision. Additional special meetings of the Board may be called as necessary.

As required by the Combined Code, all Directors have access to the advice and services of the Company Secretary, and any Director wishing to do so in furtherance of his duties may take independent professional advice at the Company's expense. In the year ended 31 December 2009, no Director sought independent professional advice. In order to discharge their duties, Directors are provided with access to papers prior to Board meetings and Directors are free to seek any further information they consider necessary. In addition, between Board meetings, Directors have access to the Company's officers and employees in order to progress the Company's business.

In order to facilitate the Directors' fulfilment of their responsibilities regarding continuing education and to enhance each Director's knowledge of the Company, the Company's business operations and the latest developments in corporate governance, the management provides Directors with the following:

- access to, or notice of, continuing educational programs that are designed to keep Directors abreast of the latest developments in corporate governance matters and critical issues relating to the operation of public company boards.
- material that contains information pertaining to (i) the Company's industry and (ii) comparisons of the Company with its major competitors.
- reports and presentations from various advisors of the Company on its business.

Chairman and Chief Executive

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman is responsible for leadership of the Board, ensuring its effectiveness in all aspects of its role, setting its agenda and implementing the Board's resolutions, as well as for coordination of operational activities with the Chief Executive Officer with an objective of delivering value to the shareholders. The Chief Executive Officer is responsible for formulating strategy and for ensuring its delivery once agreed upon by the Board. The Chief Executive Officer is appointed by the Board to manage the Company and to supervise and hold accountable all EDC operations personnel. The Chief Executive Officer has authority on all matters of management and is accountable for all duties and responsibilities delegated by the Board for the performance of the Company. The Chief Executive Officer is primarily responsible for new business development, communicating with shareholders and analysts and all other areas of day-to-day management of operations of the Company. In doing so, he works with the executive management team, which comprises Vice Presidents and certain other senior executives.

Board evaluation

The Board of Directors conducted an annual self-evaluation to determine whether it and its Committees were functioning effectively. The assessment was discussed with the full Board at its meeting. The assessment focused on consideration and discussion of the Board's contribution to the Company; the nature and level of its interaction with the Company's management; the quality, quantity and scope of information which flows to the Board from management, and the way in which it flows; the content of Board meetings and presentations to Board meetings; the practical arrangements for the work of the Board; the work and operation of the Board's Committees; and the areas in which the Board or management believes that the Board could improve. Overall, Board members concluded that the Board and its Committees were operating in an effective and constructive manner.

Insurance

In accordance with provision A1.5 of the Combined Code, the Company has in place Directors' and Officers' Insurance in respect of the Directors' duties as directors.

Board committees

The principal committees of the Board are the Audit and Finance, Remuneration and Nomination and Corporate Governance Committees. We believe that our Audit and Finance Committee serves the same function as the audit committee recommended by the Combined Code and that our Remuneration and Nomination Committee serves the same function as the remuneration committee and the nominations committee recommended by the Combined Code. We are not currently able to comply with the requirements of the Combined Code in relation to the composition of the audit committee and the remuneration committee. Our Audit Committee is comprised of two members, one being Mr. Hansen, our former Chief Financial Officer, and the other being Mr. Shohkin, who, although a non-executive Director, is not strictly independent for purposes of the Combined Code. Our Remuneration and Nomination Committee is comprised of three members, Mr. Djaparidze, our Chief Executive Officer, and Mr. Kalyuzhny and Mr. Huck, both of whom are non-executive Directors and are independent for purposes of the Combined Code. We will seek to modify the composition of our Audit Committee and our Remuneration and Nomination Committee over time as further appointments are made to our Board of Directors.

Each of the Committees has Terms of Reference under which authority is delegated by the Board. The Terms of Reference for each Committee can be found at: www.eurasiadrilling.com/corporate-governance.html

The Board delegates specific responsibilities to Committees as described below.

Audit and Finance Committee

The Company's Audit and Finance Committee consists of two members: Mr. Shokhin and Mr. Hansen. The Committee is chaired by Mr. Shokhin. The Audit and Finance Committee convenes as often as necessary. The Committee is authorised to carry out the following functions relating to the control of the Company's financial and business operations:

- coordinate with the Company's independent auditors and prepare recommendations for its Board of Directors in connection with the election and removal of the independent auditors and on the fee and scope of services to be provided by the independent auditors;
- assess the independent auditors' reports;
- review the Company's standards and internal controls procedures and make appropriate reports and recommendations to the Company's Board of Directors;
- assess the Company's financial reports;
- review and approve budgets and business plans, as well as the process for developing budgets and business plans;
- review and approve intercompany financings; and
- review and approve any financing transactions with a value in excess of US \$50 million.

Remuneration and Nomination Committee

The Company's Remuneration and Nomination Committee consists of three members: Mr. Huck, Mr. Kalyuzhny and Mr. Djaparidze. The Committee is chaired by Mr. Huck. The Committee is responsible for establishing and implementing a policy for the compensation of directors, consultants and members of senior management, which may take the form of cash, stock options granted pursuant to stock option plans and other benefits. More detailed information about the Remuneration and Nomination Committee is given in the Remuneration report on pages 35-38.

Corporate Governance Committee

Our Corporate Governance Committee consists of two members: Earl of Clanwilliam and Mr. Gremillion. The Committee is chaired by Earl of Clanwilliam. The Corporate Governance Committee is responsible for assisting and advising our Board of Directors with respect to matters relating to the general operation of the Board of Directors, our corporate governance and the performance of the Board of Directors and individual directors.

To ensure compliance with the Company's obligations under the Listing Rules (including the obligations under the Disclosure and Transparency Rules) of the United Kingdom Listing Authority (UKLA), to preserve the Company's reputation for integrity and ethical conduct and to avoid improper conduct by anyone associated with the Company, the Company introduced a Corporate Disclosure Policy and a Share Dealing Policy. The Company has also established a Disclosure Committee. More detailed information about the Corporate Disclosure and Share Dealing Policies, and the Disclosure Committee is given in the Remuneration report on pages 35-38.

Corporate governance report

continued

Relationship with shareholders

The Company continues to increase its communication with shareholders, investors and brokers. Presentations are made to analysts, the press and institutional investors at the time of the announcement of the full year and half-year results. The Company, principally through the Chief Executive Officer, Chief Financial Officer and Vice President Marketing and Investor Relations maintains a regular dialogue with institutional shareholders and financial analysts, particularly following the interim and preliminary results announcements.

The Company has an internet web site www.eurasiadrilling.com on which it publishes its press releases, Stock Exchange announcements, announcements of conference calls with shareholders and other information concerning the Company's business and upon which it also publishes its annual and interim results.

The Annual General Meeting is the principal forum for dialogue with private shareholders. Shareholders may obtain copies of Annual and Interim Reports upon request. A business presentation is made by the Chief Executive Officer and there is an opportunity for shareholders to put questions to the Directors.

Internal controls

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. However, such a system can only manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board maintains full control over strategic, financial, operational and compliance issues. Within the overall objectives set by the Board, the management of the Company is delegated to the Chief Executive Officer, who is assisted by the Company's management. The responsibilities of the Company's management include:

- the development and recommendation of strategic plans for consideration and approval by the Board that reflect the longer-term objectives and priorities established by the Board;
- implementation of the strategies and policies of the Company as determined by the Board;
- monitoring of the operating and financial results against the plans and budgets;
- prioritising the allocation of technical and human resources;
- developing and implementing risk management systems; and
- managing and monitoring health, safety and environmental matters.

In addition, the Company's policies contain a statement on business conduct, which emphasises the legal, ethical and moral standards that have to be employed in all of the Company's business dealings. The Company expects the highest standards from all employees and key suppliers.

Statement of compliance with the Combined Code

The Directors believe the Company has complied with the provisions set out in the Combined Code, except as set out above in this report. The Directors are of the opinion that these areas of noncompliance do not prejudice shareholders' interests and is justifiable given the specific circumstances of the Company.

Going concern

The Directors are satisfied that the Group has adequate resources to continue to operate for the foreseeable future and have adopted the going concern basis in preparing the financial statements.

Greater than five percent shareholdings

As of December 31, 2009, the following are shareholders who, to the Company's knowledge, own, directly or indirectly, greater than five percent (5%) of the Company's issued and outstanding shares. The percentages below are based upon the amount of authorised and issued shares of the Company as at December 2009, less the number of shares of the Company bought back by a wholly owned subsidiary of the Company in the course of a Company share buyback completed in 2009.

| | |
|----------------------|---------|
| Alexander Djaparidze | 45.48%* |
| Alexander Putilov | 24.48% |
| Serik Rakhmetov | 8.74% |

* Dr. Djaparidze is also CEO and a member of the Board of Directors of the Company. His shareholding includes shares owned by Cloudburst Orange Limited and Margin Finance Company Limited.

Results of 2009 Annual General Meeting of shareholders

On September 11, 2009, the Company held its annual shareholders' meeting in Cannes, France. The primary business brought before the meeting consisted of two proposals. The first proposal sought re-election and appointment of Class I Directors. The second proposal sought shareholder approval of the appointment of KPMG as the Company's independent accountant.

Both proposals passed by a ratio of approximately 99% to 1% voting for the proposals with approximately 76% of the issued and outstanding shares voting at the meeting either in person or by proxy.

Auditor's fees for 2009

The Company's independent auditing firm is ZAO KPMG, a company incorporated under the laws of the Russian Federation and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. During 2009 the Company paid ZAO KPMG US \$1,690,057.20 (net of VAT) for auditing services. The firm provided no material non-audit services to EDC during 2009.

Share buyback

During 2009 the Company's Board of Directors authorised the continuance of the share buyback program which was begun in 2008, of up to US \$60 million of the Company's shares. By July 31, 2009, the Company acting through a wholly owned subsidiary bought back approximately 12.5 million shares of the Company for a consideration of approximately US \$60 million which constituted approximately eight point five percent (8.5%) of the then issued shares of the Company.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable law and regulations.

Our corporate affairs are governed by our amended and restated memorandum of association (the 'Memorandum of Association'), the amended and restated articles of association (the 'Articles of Association') and by the Companies Law (2004 Revision) (the 'Companies Law') and the common law of the Cayman Islands. As noted in the Corporate Governance Report, because the Company is incorporated in the Cayman Islands, it is not subject to UK corporate governance requirements. Because the Company intends to comply with established best practice, wherever possible and where it is in the Company's interests, the Company has applied the Principles of Good Governance as set out in the Combined Code, except where indicated within this report.

The Company's Audited Consolidated Financial Statements and the accompanying notes have been prepared in accordance with US GAAP.

In preparing the Company's financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with US GAAP; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the US GAAP. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's web site. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other applicable or controlling jurisdictions.

To the best of the Directors' knowledge:

- (a) The Financial Statements prepared in accordance with US GAAP give a true and fair view of the assets, liabilities, financial position and profit-loss of the Company and its consolidated undertakings; and
- (b) The Annual Report includes a fair review of the development and performance of the Company's business and the position of the Company and its consolidated undertakings as a whole, together with a description of the principal risks and uncertainties they face.

Directors' report

This Report is submitted for the year ended December 31, 2009.

Activities, profits and dividends

The principal activities of the Company continue to be the onshore and offshore drilling services in Russia and in the Caspian Sea, as well as onshore integrated well construction and workover services. The Company's profit for the year amounted to US \$165.5 million (2008: US \$221 million). The Directors declared an ordinary dividend of US \$0.25 per share (2008: US \$0.25).

Further descriptions of the Company's development and performance during the year, position at the year end and likely future prospects are reviewed in the Chairman's Statement, the Chief Executive's Statement, in the Management's discussion and analysis of financial condition and results of operations on pages 18-33, the Corporate governance report on pages 36-41, and the Remuneration report on pages 44-47, which are incorporated into this Directors' report as if set forth herein.

Share Capital and Major Shareholders

The Company's Share Capital and Major Shareholders are set forth in the Notes to consolidated financial statements on pages 53-71 the Corporate governance report on pages 36-41 and the Remuneration Report on pages 44-47.

Company policies

The Directors have adopted several policies applicable to the Directors, officers and employees of the Company including:

Corporate Disclosure Policy summary

The Company has adopted a Corporate Disclosure Policy, a copy of which is available on the Company's web site.

The Corporate Disclosure Policy regulates the disclosure of information about the Company to the public. The purpose of the Policy is to raise awareness of the Company's approach to disclosure among the Board of Directors, senior management and employees of the Company. This Corporate Disclosure Policy does not derogate from the Company's existing policies and practices regarding confidential information.

A disclosure committee (the 'Disclosure Committee') has been established with responsibility for overseeing the Company's disclosure practices and consists of the Chief Executive Officer, Chief Financial Officer and General Counsel of EDC. Confidential information about or related to the Company must not be disclosed to third parties except in accordance with the Corporate Disclosure Policy. The Corporate Disclosure Policy provides examples of what may constitute confidential information, which depending upon the circumstances may include, but are not limited to the following: (i) changes in corporate structure; (ii) changes in capital structure; (iii) changes in financial results; (iv) changes in business operations; (v) acquisitions and dispositions; and (vi) changes in credit arrangements.

Share Dealing Policy summary

The Company has adopted a Share Dealing Policy, a copy of which is available on the Company's web site.

The Share Dealing Policy forbids dealing in the Company's shares based on material non-public information, i.e. insider trading and similar offenses. The purpose of the Share Dealing Policy is to ensure compliance with the law, to preserve the Company's reputation for integrity and ethical conduct and to avoid improper conduct by anyone associated with the Company. The Share Dealing Policy makes the Company's Directors, officers and employees aware that they are all personally responsible for ensuring the Company's strict compliance with this Policy and that any breach of it will be treated as a disciplinary offence with the severest consequences. The Policy establishes certain procedures and requires all persons to consult with the General Counsel of the Company before taking any action that may be covered by the Policy.

Policy and practice on payment of suppliers

As a result of the nature of the Company's business, its contractual relationships with suppliers of goods and services and with sub-contractors vary according to circumstances. It is the Company's policy to enter into an appropriate form of contractual agreement on payment terms and to pay according to those terms. The Company does not follow any particular code or practice for the payment of creditors. In practice, the Company makes every effort to pay accordingly when it can be confirmed that the supplier has provided the goods or services in accordance with the relevant terms of the contract.

Significant agreements

The Directors are not aware of any significant agreements to which the Company and/or any of its subsidiaries or associates is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid, save that a subsidiary that ceased to be a subsidiary of the Company would cease to benefit from the Company's financing arrangements.

Annual General Meeting

The Directors have scheduled an Annual General Meeting of the Members of the Company for September 17, 2010 in Cannes, France. Details of the resolutions to be proposed at the Annual General Meeting are given in the Notice of Annual General Meeting, which is published separately and sent to shareholders. The Directors consider that all of the resolutions set out in the Notice of Annual General Meeting are in the best interests of the Company and its shareholders as a whole and recommend that shareholders vote in favour of each of them.

Auditors

During the year KPMG Limited remained as the Company's independent auditors. KPMG Limited have expressed their willingness to continue in office. Accordingly, a resolution to reappoint KPMG Limited as the Company's independent auditor will be proposed the forthcoming Annual General Meeting.

Remuneration report

This Remuneration Report for the year ending December 31, 2009 sets out how the principles of the UK Combined Code of Corporate Governance (the 'Combined Code') relating to Directors' and senior management remuneration are applied. The Board believes that the Company was generally compliant with the provisions of the Combined Code relating to management remuneration throughout the period, except where indicated within this Report.

Remuneration of the Board of Directors

Board member remuneration for the Company consists of a cash stipend plus reimbursement for each director's actual expenses incurred in attending the Company's Board meetings. The cash stipend paid to each Board member for 2009 was as follows:

| Name | Amount |
|----------------------------|-----------|
| Lord Patrick James Gilford | \$140,625 |
| Alexander Djaparidze | \$140,625 |
| Alexander Shokhin | \$140,625 |
| Albert Vladimirov | \$112,500 |
| Martin Hansen | \$140,625 |
| Todd Gremillion | \$140,625 |
| Rene Huck | \$140,625 |
| Victor Kalyuzhny | \$28,125 |

At its December 2008 Board meeting the Board adopted a policy by which Board members could elect to receive the value of their yearly cash stipend in shares of the Company's stock, valued at the previous year-end closing price. Certain of the directors chose this option for 2009. Non-executive Directors do not receive any performance-related bonuses, pensions, share options or other forms of benefit. The Board may grant extra remuneration to any Director who performs special services at the request of the Company. No such extra remuneration was granted in 2009.

Remuneration Committee

The Board has delegated to the Remuneration and Nomination Committee, through Terms of Reference, consideration of executive remuneration issues generally, including the use of share incentive plans. The Remuneration and Nomination Committee comprises of three members: Rene Huck (Chairman), a non-executive director whom the Company deems independent, Victor Kalyuzhny, a nonexecutive director whom the Company deems independent, and Alexander Djaparidze, a director who is also the Company's Chief Executive Officer. (Dr. Djaparidze does not vote on his own compensation.) The Committee effective January 1, 2009 approved an amendment to the award plan under the Company's 2007 Incentive Compensation Plan to provide for awards solely in the shares of the Company. The terms of reference permit the Remuneration Committee to obtain its own external advice on any matter at the Company's expense.

Remuneration policy for executive Directors and senior management

The objective of the Company's remuneration policy is to ensure that executive directors and members of the senior management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. Dr. Djaparidze, the Company's Chief Executive Officer, is the sole executive director. The Committee aims to provide a competitive remuneration package to attract, retain and motivate senior management with the experience needed to shape and execute the Company's strategy and deliver shareholder value. The Committee takes account of external market data supplied by independent professional advisers and is sensitive to the wider scene, including pay and employment conditions elsewhere in the Company, especially when determining annual salary increases.

The Committee's policy is for a significant proportion of executive reward to be variable and dependent upon the Company's performance. Variable reward components provide an opportunity for higher levels of remuneration where this remuneration is supported by exceptional performance, whether at an individual level or in relation to the Company's short-term and longer-term business priorities. Variable rewards will continue to be provided through a balanced mix of performance-related elements. The annual bonus scheme supports operational objectives over the financial year, whilst the Company's schedule of awards under its 2007 Incentive Compensation Plan will reward superior performance over a longer period.

The remuneration of senior management consists of:

- Basic salary – which forms the major element of remuneration and is based on comparable positions in leading businesses of similar size and complexity.
- Annual discretionary bonus – which is based on achievement of Company profit targets, as well as other financial and non-financial measures and personal targets. The maximum bonus payout is fifty percent (50%) of salary.
- 2007 Incentive Plan – under which the senior management may receive awards in an aggregate value of up to fifteen times (15x) each such person's annual salary and bonus, depending upon the increase in the price of the Company's GDRs over five years, payable in shares of the Company.

Further details of each element of the senior management's remuneration package, together with details of interests in shares, are set out below in this Report.

Information on compensation of the Company's top five officers

The following table sets forth compensation for the Company's five most highly compensated officers employed on a full-time basis during 2009. In addition to the amounts set forth below, the Company reimburses its officers for their actual out-of-pocket expenses incurred while conducting the Company's business.

| Name | Title | Total compensation paid in 2009 |
|----------------------|-----------------------------|---------------------------------|
| Alexander Djaparidze | CEO-EDC | \$1,110,756 |
| Alexander Bogachev | President-BKE | \$781,961 |
| W. Richard Anderson | CFO-EDC | \$693,667 |
| Taleh Aleskerov | Sr. VP Finance-BKE | \$587,882 |
| Medzhid Zulpukarov | General Director, BKE-Shelf | \$238,312 |

Management remuneration

(a) Basic salary and benefits

The Company structures remuneration packages which are appropriate to the particular function and level of responsibility of each individual member of senior management and which are designed to attract, retain and motivate such persons. It takes into account the remuneration structures and levels at other companies, in particular in the Russian oilfield services sector. Eligible members of senior management are also provided with insurance and other health benefits in accordance with market standards.

Senior management compensation for the period January 1, 2009 through December 31, 2009 in the aggregate was approximately US \$3,413,000.

(b) Annual Discretionary Bonus Scheme

The Company operates an annual discretionary bonus scheme under which eligible members of management are able to earn a discretionary bonus up to a maximum of fifty percent (50%) of salary, dependent upon performance conditions being met. The bonus is payable in cash.

Senior management discretionary bonuses for the period January 1, 2009 through December 31, 2009 in the aggregate was approximately US \$1,465,000.

(c) Share Incentive Plan

It is the Remuneration and Nomination Committee's policy that senior management should participate in the Company's Incentive Compensation Plans as this scheme aligns their interests with those of our shareholders by linking the reward available to participants with increase in the overall price of the Company's GDRs. Details of the share incentive awards are set out below.

2007 Incentive Compensation Plan

In July 2007, the Board of Directors considered and approved the 2007 Incentive Compensation Plan (the 'Plan'). The Plan was adopted by the Board of Directors to reward certain corporate officers, directors and key employees of the Company and certain independent consultants by enabling them to acquire ordinary shares of the Company and/or other awards as the Remuneration and Nomination Committee of the Board of Directors deems appropriate. The Plan was designed to attract and retain key employees of the Company and its subsidiaries, to attract and retain qualified directors of the Company, to attract and retain consultants and other independent contractors and to stimulate the active interest of such persons in the development and financial success of the Company and its subsidiaries. The Plan allowed the Company to issue ordinary shares in the Company up to five percent (5%) of the total ordinary shares issued and outstanding on such terms and conditions as are, in the best judgment of the Board of Directors, necessary, appropriate, advisable or convenient in connection with the foregoing.

In March 2008, the Remuneration and Nomination Committee approved a schedule of awards under the Plan, similar to a phantom stock plan. Under this schedule of awards, eligible members of senior management are granted an opportunity during the period beginning January 1, 2008 and ending December 31, 2012 (the 'Performance Period') to earn incentive compensation awards (individually an 'Award' and collectively – 'Awards') in an aggregate value of up to fifteen times (15x) each such participant's annual compensation, meaning each participant's annual salary and bonus, calculated for each calendar year beginning January 1 and ending December 31 ('Award Year') within the Performance Period based on the participant's current salary and bonus at the Starting Date for such Award Year ('Annual Compensation'). Starting Date means the date one year prior to the last trading day on the London Stock Exchange prior to the end of the applicable Award Year (the 'Target Date'). Each Award Year, the Award is an amount equal to the participant's respective Annual Compensation times fifteen (x15) multiplied by the applicable Annual

Remuneration report continued

Available Award Percentage for the Award Year and then multiplied by the applicable Annual Award Percentage Reached for the Award Year. Annual Available Award Percentage means a percentage set forth in the table below, indicating how much Annual Compensation is available for an Award each Award Year if a Target Price Increase (i.e. percentages listed below for target increases in the Company's GDR price each Award Year) is realised. Annual Award Percentage Reached means the percentages set forth below, indicating what percentage of the available Annual Compensation shall be granted as an Award each Award Year if an applicable Target Price Increase is realised.

Pursuant to the Incentive Plan, the terms and conditions of each Award are to be set forth in an award agreement between the participant and the Company, incorporating the terms of the Incentive Plan and its Exhibits. Awards may be earned by the participants each Award Year upon the Company's GDR price reaching certain Target Price Increases. No such Award is to be made if such Target Price Increases are not achieved. The Target Price Increase achieved in any Award Year will be calculated based on the percentage increase of (i) the average sale price per GDR, quoted by the LSE, for the twenty (20) trading days preceding the Target Date over (ii) the Starting Price.

Column A of the table below sets out five (5) possible Target Price Increases for each Award Year of the Performance Period. Column B states the Annual Award Percentage Reached upon achievement of the applicable Target Price Increase for such Award Year.

| Column A | Column B |
|---|--------------------------------|
| Target Price Increase Reached | Annual Award Percentage |
| Below 5% increase in the Starting Price | 0% |
| From 5% up to 10% increase in the Starting Price | 25% |
| From 10% up to 15% increase in the Starting Price | 50% |
| From 15% up to 20% increase in the Starting Price | 75% |
| From 20% or more increase in the Starting Price | 100% |

The Award will be made in un-equal instalments each Award year during the Performance Period in accordance with the table below, in which (i) Column C represents the applicable Award Year and (ii) Column D represents the Annual Available Award Percentage of Annual Compensation available to calculate the Award in such Award Year.

| Column C | Column D |
|------------------------------|-------------------------------|
| Award Year Percentage | Annual Available Award |
| 2008 | 12% |
| 2009 | 15% |
| 2010 | 18% |
| 2011 | 25% |
| 2012 | 30% |
| Total | 100% |

Each participant's right to such Award vests on the earliest of (i) the calendar day which is immediately after the applicable Target Date, provided that the participant on that date is still employed or otherwise in good standing with the Company and/or its affiliates. The Company will pay the participant such Award within thirty (30) days of the date it vests (the 'Payment Date').

If a participant's employment with the Company or its affiliates is terminated on or prior to a Target Date or such participant is deemed not in good standing as may be determined by the Company from time to time in its sole discretion on or prior to a Target Date, such participant will forfeit any Award and shall have no right to receive any Award arising on such Target Date.

The Remuneration and Nomination Committee approved the award of 718,868 GDRs to Plan participants for their performance in 2009. One GDR represents one ordinary share.

Interests of Directors and senior management in the Company

As of December 31, 2009, the Directors and senior management of the Company, to the Company's best knowledge, had the following interests in shares of the Company:

| Directors and senior management | Shares (including GDRs) | Percentage of shares |
|-----------------------------------|-------------------------|----------------------|
| Alexander Djaparidze ¹ | 62,441,719 | 46.44% |
| Todd Gremillion ² | 855,643 | 0.64% |
| Martin Hansen ³ | 553,393 | 0.41% |
| Doug Stinemetz ⁴ | 380,000 | 0.28% |
| Alexander Bogachev | 80,830 | 0.06% |
| Taleh Aleskerov | 48,470 | 0.04% |

¹ Alexander Djaparidze is a Director, as well as our Chief Executive Officer. Alexander Djaparidze was the beneficial owner of an aggregate of 62,397,819 shares. Alexander Djaparidze owned directly 27,635,479 shares. Alexander Djaparidze was a beneficial owner of 33,192,340 shares through his beneficial ownership of Cloudburst Orange Limited. A familial trust of Alexander Djaparidze was a beneficial owner of 1,570,000 shares through its ownership of Margin Finance Company Limited.

² Todd Gremillion is a Director and was a beneficial owner of 855,643 shares through his ownership of Goldrust LLP.

³ Martin Hansen was our Chief Financial Officer until November 17, 2007, as well as a Director.

⁴ S. Douglas Stinemetz, our General Counsel and Secretary, was a beneficial owner of 380,000 shares through his ownership of Eagle Eye Holdings, Inc.

As of December 31, 2009, no other Directors or members of senior management of the Company, to the Company's best knowledge, had interests in shares in the Company. As of December 31, 2009, there were no options or other commitments to issue additional shares in the Company apart from any disclosed above.

Independent auditors' report

The Board of Directors Eurasia Drilling Company Limited

We have audited the accompanying consolidated balance sheets of Eurasia Drilling Company Limited and its subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of Eurasia Drilling Company Limited. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eurasia Drilling Company Limited and its subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

ZAO KPMG
April 27, 2010

Consolidated balance sheets

as of December 31, 2009 and 2008
(all amounts in thousands of US dollars, unless otherwise noted)

| | Note | 2009 | 2008 |
|---|------|------------------|------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 3 | 433,724 | 279,430 |
| Accounts receivable, net | 4 | 191,054 | 230,147 |
| Inventories | 5 | 116,801 | 183,448 |
| Taxes receivable | 12 | 35,772 | 37,701 |
| Deferred income tax assets | 12 | 11,227 | 2,379 |
| Other current assets | | 6,271 | 21,279 |
| Total current assets | | 794,849 | 754,384 |
| Property, plant and equipment | 6 | 684,188 | 608,684 |
| Long-term accounts receivable | 7 | 4,013 | 4,675 |
| Deferred income tax assets | 12 | 277 | 78 |
| Goodwill | 17 | 30,792 | – |
| Other non-current assets | 8 | 9,289 | 77,714 |
| Total assets | | 1,523,408 | 1,445,535 |
| Liabilities and stockholders' equity | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 228,499 | 236,343 |
| Advances received | | 37,239 | 7,863 |
| Short-term debt and current portion of long-term debt | 10 | 31,796 | 91,721 |
| Taxes payable | 12 | 53,463 | 45,792 |
| Total current liabilities | | 350,997 | 381,719 |
| Long-term debt | 11 | 150,379 | 171,138 |
| Accrued pension liability | 13 | 3,865 | 4,187 |
| Long-term VAT payable | | – | 106 |
| Deferred income tax liabilities | 12 | 16,009 | 7,842 |
| Total liabilities | | 521,250 | 564,992 |
| Stockholders' equity | 16 | | |
| Common stock | | 1,469 | 1,469 |
| Treasury stock, at cost | | (58,332) | (40,100) |
| Additional paid-in capital | | 528,163 | 519,763 |
| Retained earnings | | 596,340 | 464,461 |
| Accumulated other comprehensive loss | | (65,482) | (65,050) |
| Total stockholders' equity | | 1,002,158 | 880,543 |
| Total liabilities and stockholders' equity | | 1,523,408 | 1,445,535 |

W. Richard Anderson
CFO of Eurasia Drilling Company Limited
April 27, 2010

Consolidated statements of income

for the years ended December 31, 2009 and 2008
(all amounts in thousands of US dollars, unless otherwise noted)

| | Note | 2009 | 2008 |
|--|------|------------------|------------------|
| Revenues | | | |
| Drilling and related services | | 1,362,222 | 2,071,683 |
| Other sales and services | | 19,981 | 30,096 |
| Total revenues | | 1,382,203 | 2,101,779 |
| Cost of services | 15 | (912,050) | (1,453,718) |
| General and administrative expenses | | (94,861) | (122,011) |
| Taxes other than income taxes | | (55,061) | (72,571) |
| Depreciation | | (106,390) | (101,777) |
| Gain (loss) on disposal of property, plant and equipment | | 382 | (4,722) |
| Income from operating activities | | 214,223 | 346,980 |
| Interest expense | | (13,524) | (26,553) |
| Interest income | | 10,631 | 9,553 |
| Currency transaction loss | | (4,414) | (33,017) |
| Net gain on acquisitions of businesses | 17 | 2,849 | – |
| Other expenses | | (418) | (759) |
| Income before income taxes | | 209,347 | 296,204 |
| Income tax expense | 12 | (43,857) | (75,271) |
| Net income | | 165,490 | 220,933 |
| Basic earnings per share of common stock (US dollars) | 16 | 1.22 | 1.51 |
| Diluted earnings per share of common stock (US dollars) | 16 | 1.22 | 1.51 |

Consolidated statements of changes in stockholders' equity and comprehensive income

for the years ended December 31, 2009 and 2008
(all amounts in thousands of US dollars, unless otherwise noted)

| | Common stock | Treasury stock, at cost | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income/(loss), net of tax | Total Stockholders' equity |
|--|-----------------|----------------------------|----------------------------------|----------------------|---|----------------------------------|
| Balance as of January 1, 2008 | 1,469 | – | 514,180 | 277,855 | 28,392 | 821,896 |
| Comprehensive income: | | | | | | |
| Net income | – | – | – | 220,933 | – | 220,933 |
| Other comprehensive income: | | | | | | – |
| Foreign currency translation loss | – | – | – | – | (93,023) | (93,023) |
| Pension benefits: | | | | | | |
| Actuarial loss | – | – | – | – | (419) | (419) |
| Comprehensive income | | | | | | 127,491 |
| Refund of costs related to initial public offering | – | – | 5,583 | – | – | 5,583 |
| Purchase of treasury stock | – | (40,100) | – | – | – | (40,100) |
| Dividends declared | – | – | – | (34,327) | – | (34,327) |
| Balance as of December 31, 2008 | 1,469 | (40,100) | 519,763 | 464,461 | (65,050) | 880,543 |
| Comprehensive income: | | | | | | |
| Net income | – | – | – | 165,490 | – | 165,490 |
| Other comprehensive income: | | | | | | – |
| Foreign currency translation loss | – | – | – | – | (2,592) | (2,592) |
| Pension benefits: | | | | | | |
| Prior service benefit | – | – | – | – | 1,483 | 1,483 |
| Actuarial gain | – | – | – | – | 677 | 677 |
| Comprehensive income | | | | | | 165,058 |
| Purchase of treasury stock | – | (18,621) | – | – | – | (18,621) |
| Disposal of treasury stock | – | 389 | – | – | – | 389 |
| Incentive compensation plan | – | – | 8,400 | – | – | 8,400 |
| Dividends declared | – | – | – | (33,611) | – | (33,611) |
| Balance as of December 31, 2009 | 1,469 | (58,332) | 528,163 | 596,340 | (65,482) | 1,002,158 |

Consolidated statements of cash flows

for the years ended December 31, 2009 and 2008
(all amounts in thousands of US dollars, unless otherwise noted)

| | Notes | 2009 | 2008 |
|--|-------|------------------|-----------|
| Cash flows from operating activities | | | |
| Net income | | 165,490 | 220,933 |
| Adjustments for non-cash items: | | | |
| Depreciation | | 106,390 | 101,777 |
| Accrued interest expense | | 1,185 | 5,499 |
| Deferred income taxes | | (493) | 18,142 |
| (Gain) loss on disposal of property, plant and equipment | | (382) | 4,722 |
| Increase in allowance for doubtful accounts receivable | | 11,184 | 3,511 |
| Foreign currency exchange rate difference (unrealised) | | 4,917 | 45,964 |
| Incentive plan | | 4,200 | – |
| All other items – net | | 501 | 513 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | | 34,579 | (48,214) |
| Inventories | | 61,564 | (85,786) |
| Taxes receivable | | 1,646 | 1,459 |
| Other current assets | | 13,920 | (16,745) |
| Accounts payable and accrued liabilities | | (32,100) | 30,134 |
| Advances received | | 27,967 | 8,121 |
| Taxes payable | | 5,175 | 20,278 |
| Other current liabilities | | 3,764 | (457) |
| Net cash provided by operating activities | | 409,507 | 309,851 |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | | (176,608) | (254,580) |
| Change in restricted cash | 8 | 69,793 | (72,435) |
| Proceeds from sale of property, plant and equipment | | 4,349 | 3,125 |
| Acquisition of subsidiary, net of cash acquired | | (23,374) | – |
| Net cash used in investing activities | | (125,840) | (323,890) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of short-term debt | | – | 208,067 |
| Principal repayments of short-term debt | | (45,366) | (230,999) |
| Proceeds from issuance of long-term debt | | – | 71,920 |
| Principal repayments of long-term debt | | (35,207) | (26,094) |
| Repayment of capital lease obligations | | (3,927) | (11,022) |
| Dividends paid | | (34,327) | – |
| Proceeds from refund of costs related to initial public offering | | – | 5,583 |
| Purchase of treasury stock | | (18,621) | (40,100) |
| Net cash used in financing activities | | (137,448) | (22,645) |
| Effect of exchange rate changes on cash | | 8,075 | (26,975) |
| Net increase (decrease) in cash and cash equivalents | | 154,294 | (63,659) |
| Cash and cash equivalents at beginning of period | | 279,430 | 343,089 |
| Cash and cash equivalents at end of period | 3 | 433,724 | 279,430 |
| Supplemental disclosures of cash flow information | | | |
| Interest paid | | 13,090 | 21,329 |
| Income tax paid | | 44,991 | 69,840 |

Notes to the consolidated financial statements

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

Note 1. Organisation and environment

The primary activities of Eurasia Drilling Company Limited (the 'Company') and its subsidiaries (together, the 'Group') include providing exploratory and developmental drilling and oil and gas field services to companies operating within the Russian Federation, Kazakhstan, and the Caspian Sea region.

Eurasia Drilling Company Limited was registered on November 25, 2002 under the Law of the Cayman Islands. The Company was established for the purpose of acquiring OOO LUKOIL Burenie and its subsidiaries.

In November 2004 Eurasia Drilling Company Limited entered into a purchase agreement with OAO LUKOIL to acquire OOO LUKOIL Burenie and its subsidiaries. The acquisition was completed on December 30, 2004. Prior to the acquisition, the Company had no operating activity.

OOO LUKOIL Burenie, now OOO Burovaya Kompaniya Eurasia, was established in accordance with the decision of the Board of Directors of OAO LUKOIL as of February 13, 1995 and registered by the resolution of the Head of Kogalym Administration 216 as of May 17, 1995. It was formed from the West Siberian drilling subdivisions of OAO LUKOIL.

As of December 31, 2009 and 2008 OOO Burovaya Kompaniya Eurasia had on-shore operating branches in Kogalym, Perm, Usinsk and Zhirnovsk (Volgograd Region) in the Russian Federation.

In 2007 the Group established a subsidiary in Kazakhstan, TOO BKE Kazakhstan Burenie, to provide on-shore drilling services.

In December 2006, the Group acquired 100% interests in LUKOIL Shelf Limited and LUKOIL Overseas Orient who provide off-shore drilling services in the Caspian Sea to various oil and gas companies in the Russian Federation, Kazakhstan and Turkmenistan. In 2007 these companies were renamed EDC Shelf Limited and AstraOrient Limited, respectively. 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.

In December 2009, the Group acquired 100% interests in OOO Tekhgeoservice (OOO TGS), a Russian provider of wellsite directional drilling and telemetry services (refer to note 17).

In December 2009, the Group acquired 100% interests in OOO Kogalym Well Workover Division (OOO KWWD) and OOO Urai Well Workover Division (OOO UWWWD) who provide well workover, well reconditioning and well servicing operations in West Siberia (refer to note 17).

The majority of the Group's revenues are currently derived from services provided to OAO LUKOIL and its affiliated entities (the 'LUKOIL Group') and as such, the Group is economically dependent upon its contractual agreements with the LUKOIL Group (refer to note 21).

Business and economic environment

The Russian Federation, Kazakhstan, and Turkmenistan have been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in these countries involve risks that typically do not exist in other markets. In addition in the view of some commentators, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment.

The accompanying financial statements reflect management's assessment of the impact of the business environment in the countries in which the Group operates on the operations and financial position of the Group. The future business environment may differ from management's assessment.

Basis of preparation

The consolidated financial statements have been prepared by the Group in accordance with accounting principles generally accepted in the United States of America ('US GAAP').

Notes to the consolidated financial statements

continued

Note 2. Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements.

Principles of consolidation

These consolidated financial statements include the financial position and results of the Company and controlled subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest, unless minority interest shareholders have substantive participating rights. Other significant investments in companies of which the Company directly or indirectly owns between 20% and 50% of the voting interest and over which it exercises significant influence but not control, are accounted for using the equity method of accounting. Investments in other companies are recorded at cost. Equity investments and investments in other companies are included in 'Other non-current assets' in the consolidated balance sheet.

Use of estimates

The preparation of the consolidated financial statements requires management of the Group to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, goodwill impairment assessment, accounts receivable, inventories, deferred income taxes, long-term debt, accrued pension liability and stock-based compensation liability. Actual results could differ from those estimates.

Acquisitions

Assets acquired and liabilities assumed in business combinations are recorded on the Company's consolidated balance sheet as of the respective acquisition dates based upon their fair values at such dates. The results of operations of the businesses acquired by the Company begin to be included in the Company's consolidated statement of income upon the respective acquisition dates.

Functional and reporting currency

The functional currency of the Group, except for OOO Burovaya Kompaniya Eurasia, OOO Kliver, OOO NTS, OOO TGS, OOO KWWD, OOO UWWD 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 and OOO UWWD 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.

Translation from the functional currency to the US dollar was conducted as follows:

- all assets and liabilities were translated from the functional to the reporting currency at the exchange rate effective at the reporting date;
- equity items were translated from the functional to the reporting currency at the historical exchange rate; and
- items in the statement of income and cash flows were translated from the functional currency to the reporting currency at rates, which approximate rates at the date of transaction.

Translation differences resulting from the use of these exchange rates are included as a separate component of accumulated other comprehensive income.

The closing exchange rate as of December 31, 2009 and 2008 was 30.2442 and 29.3804 Russian rubles to one US dollar, respectively.

The Russian ruble and other currencies of republics of the former Soviet Union are not readily convertible outside of their countries. Accordingly, the translation of amounts recorded in these currencies into US dollars should not be construed as a representation that such currency amounts have been, could be or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Cash with restrictions on immediate use

Cash funds for which restrictions on immediate use exist are accounted for within other non-current assets.

Accounts receivable

Accounts receivable are recorded at their transaction amounts less allowance for doubtful accounts. Allowance for doubtful accounts receivable is recorded to the extent that there is a likelihood that any of the amounts due will not be obtained. Non-current receivables are discounted to the present value of expected cash flows in future periods using the original discount rate.

Note 2. Summary of significant accounting policies continued

Inventories

Inventories, consisting primarily of materials and tools used for drilling are stated at the lower of cost or market value. The cost of inventories is determined using an 'average cost' method.

Property, plant and equipment

Property, plant, and equipment are stated at cost, net of depreciation. Depreciation is calculated on a straight-line method over the useful lives of the assets, estimated to be in the following ranges:

| | |
|-------------------------|-------------|
| Buildings | 15-30 years |
| Machinery and equipment | 2-20 years |
| Vehicles | 5-10 years |

The cost of maintenance, repairs and replacement of minor items of property, plant and equipment is expensed as incurred. Major renewals and improvements of assets are capitalised.

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. It is assigned to reporting units as of the acquisition date. Goodwill is not amortised, but is tested for impairment at least on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The impairment test requires estimating the fair value of a reporting unit and comparing it with its carrying amount, including goodwill assigned to the reporting unit. If the estimated fair value of the reporting unit is less than its net carrying amount, including goodwill, then the goodwill is written down to its implied fair value.

Impairment of long-lived assets

Long-lived assets and certain intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future net cash flows expected to be generated by that group. If the carrying amount of an asset group exceeds its estimated undiscounted future net cash flows, an impairment charge is recognised by writing down the carrying value to the estimated fair value of the asset group. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to dispose and are no longer depreciated.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as capital leases. Leased property, plant and equipment meeting certain capital lease criteria are capitalised and the present value of the related lease payments is recorded as a liability. Amortisation of capitalised lease assets is computed on the straight-line method over the estimated useful life.

Payments for operating leases, under which the Group does not assume all the risks and rewards of ownership are expensed in the period they are incurred.

Income taxes

Deferred income tax assets and liabilities are recognised for the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of consolidated financial statements and their respective tax bases and operating loss and tax credit carry forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognised in the consolidated statement of income in the reporting period which includes the enactment date.

The ultimate realisation of deferred income tax assets is dependent upon the generation of future taxable income in the reporting periods in which the originating expenditures become deductible. In assessing the realisability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realised. In making this assessment, management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies.

An income tax position is recognised only if the uncertain position is more likely than not of being sustained upon examination, based on its technical merits. A recognised income tax position is measured at the largest amount that is greater than 50% likely of being realised. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties relating to unrecognised tax benefits in income tax expense in the consolidated statements of income.

Notes to the consolidated financial statements

continued

Note 2. Summary of significant accounting policies continued

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost. Any transaction costs are recorded as 'Other current assets' and amortised. Subsequent to initial recognition, long-term borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated statement of income over the period of the borrowings.

If borrowings are repurchased or settled before maturity, any difference between the amount paid and the carrying amount is recognised in the consolidated statement of income in the period in which the repurchase or settlement occurs.

Pension benefits

The expected costs in respect of pension obligations of the Group are determined by an independent actuary. The net periodic costs are recognised as employees render the services necessary to earn the postretirement benefits.

Environmental expenditures

Group companies accrue for losses associated with environmental remediation obligations, when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change.

Revenue recognition

Drilling and related services

Drilling and related services are generally sold based upon contracts with customers that do not include significant post-delivery obligations. Service revenue is recognised when the services are rendered and collectability is reasonably assured. Rates for services are typically priced on a per day, per metre, per man-hour, or similar basis. Claims and change orders that are in the process of being negotiated with customers for extra work or changes in the scope of work are included in revenue when collection is deemed probable to the extent that the work has been performed.

The Group presents as work in progress gross amounts due from customers for services under contracts in progress where costs incurred plus recognised profits (less recognised losses) exceed progress billings. The Group presents as advances received from customers gross amounts due to customers for services under contracts in progress where progress billings exceed costs incurred plus recognised profits (less recognised losses).

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Group.

Other sales and services

Revenues for other sales and services are recognised when the significant risks and rewards of ownership have passed to the buyer, when it is probable that economic benefits will flow to the Group and when these economic benefits can be reliably measured.

All sales are shown net of VAT.

Treasury stock

Purchases by Group companies of the Company's outstanding stock are recorded at cost and classified as treasury stock within Stockholders' equity. Stock shown as Authorised and Issued include treasury stock. Stock shown as Outstanding does not include treasury stock.

Earnings per share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the reporting period. A calculation is carried out to establish if there is potential dilution in earnings per share if convertible securities were to be converted into shares of common stock or contracts to issue shares of common stock were to be exercised. If there is such dilution, diluted earnings per share are presented.

Share-based payments

The Group accounts for liability classified share-based payment awards to employees at fair value on the date of grant and as of each reporting date. Expenses are recognised over the vesting period. Equity classified share-based payment awards to employees are valued at fair value on the date of grant and expensed over the vesting period.

Note 2. Summary of significant accounting policies *continued*

Commitments and contingencies

Certain conditions may exist as of the balance sheet date, which may result in losses to the Group but the impact of which will only be resolved when one or more future events occur or fail to occur.

If the Group's assessment of contingencies indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued and charged to the consolidated statement of income. If a probable material loss is within a range and there is no amount within the range which is a better estimate than any other amount, the minimum amount in the range is accrued. If the assessment indicates that a potential material loss is not probable, but is reasonably possible, or is probable but cannot be estimated, than the nature of the contingent liability, together with an estimate of the range of possible loss, is disclosed in the notes to the consolidated financial statements. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

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.

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 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 June 2009, the FASB issued amendments to ASC No. 810 (former FASB Interpretation No. 46(R), '*Consolidation of Variable Interest Entities*') to address the effects of the elimination of the qualifying special purpose entity concept. More specifically, it requires a qualitative rather than a quantitative approach to determine the primary beneficiary of a variable interest entity, it amends certain guidance pertaining to the determination of the primary beneficiary when related parties are involved, and it amends certain guidance for determining whether an entity is a variable interest entity. Additionally, these amendments require continuous assessment of whether an enterprise is the primary beneficiary of a variable interest entity. Amendments are effective on January 1, 2010, and the Group does not expect any material impact on its results of operations, financial position or cash flows upon adoption.

Notes to the consolidated financial statements

continued

Note 2. Summary of significant accounting policies continued

Recent accounting pronouncements continued

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 recognised 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 December 2008, the FASB amended ASC Nos. 310, 320, 323, 405, 460, 470, 712, 715, 810, 815, 860, 954 and 958 (former FSP FAS 140-4 and FIN 46(R)-8, *'Disclosures about Transfers of Financial Assets and Interest in Variable Interest Entities'*). It requires additional disclosures about transfers of financial assets and requires public entities, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. The Group adopted new provisions starting from the fourth quarter of 2008. 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. 805 (former SFAS No. 141 (Revised), *'Business combinations'*). This ASC applies to all transactions in which an entity obtains control of one or more businesses. In April 2009, this ASC was amended and requires an entity to recognise the total fair value of assets acquired and liabilities assumed in a business combination; to recognise and measure the goodwill acquired in the business combination or gain from a bargain purchase and modifies the disclosure requirements. The Group adopted the provisions of ASC No. 805 for business combinations for which the acquisition date is after December 31, 2008. 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 organisations) 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 recognise 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.

In February 2007, FASB issued ASC Nos. 470, 825 and 954 (former SFAS No. 159, *'The Fair Value Option for Financial Assets and Financial Liabilities'*). These ASC 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 unrealised 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 ASC Nos. 470, 825 and 954 in the first quarter of 2008 and 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. This adoption did not have any impact on the Group's results of operations, financial position or cash flows.

In September 2006, the FASB issued ASC No. 820 (former 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. Effective January 1, 2009, the Group fully adopted ASC No. 820. Because there usually is a lack of quoted market prices for long-lived assets, the Group determines fair value using the present value of estimated future net cash flows from using these assets or by using historical data of market transactions with similar assets where possible. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

Note 3. Cash and cash equivalents

Cash and cash equivalents include the following:

| | As of December 31, 2009 | As of December 31, 2008 |
|--|-------------------------------|-------------------------------|
| Short-term deposits – Russian rubles | 212,485 | 50,696 |
| Short-term deposit – US dollars | 115,789 | 180,328 |
| Cash held in banks – Russian rubles | 44,110 | 15,915 |
| Cash held in banks – other currencies | 60,000 | 32,424 |
| Other | 1,340 | 67 |
| Total cash and cash equivalents | 433,724 | 279,430 |

Note 4. Accounts receivable, net

Accounts receivable include the following:

| | As of December 31, 2009 | As of December 31, 2008 |
|---------------------------------------|-------------------------------|-------------------------------|
| Trade accounts receivable | 201,321 | 230,534 |
| Advances given | 8,100 | 6,443 |
| | 209,421 | 236,977 |
| Allowance for doubtful accounts | (18,367) | (6,830) |
| Total accounts receivable, net | 191,054 | 230,147 |

Note 5. Inventories

Inventories include the following:

| | As of December 31, 2009 | As of December 31, 2008 |
|-------------------------------------|-------------------------------|-------------------------------|
| Materials for drilling and workover | 104,929 | 144,248 |
| Work in progress | 6,801 | 33,826 |
| Other consumables | 5,071 | 5,374 |
| Total inventories | 116,801 | 183,448 |

Note 6. Property, plant and equipment

Property, plant and equipment include the following:

| | As of December 31, 2009 | As of December 31, 2008 |
|--|-------------------------------|-------------------------------|
| Machinery and equipment | 787,989 | 633,223 |
| Buildings | 32,017 | 23,893 |
| Vehicles | 25,586 | 11,553 |
| | 845,592 | 668,669 |
| Less: accumulated depreciation | (251,180) | (153,055) |
| Construction in progress | 73,997 | 70,433 |
| Advances given for property, plant and equipment | 15,779 | 22,637 |
| Total property, plant and equipment | 684,188 | 608,684 |

Notes to the consolidated financial statements

continued

Note 7. Long-term accounts receivable

The Company's long-term accounts receivable were as follows:

| | Stated interest rates | As of December 31, 2009 | As of December 31, 2008 |
|---|--------------------------|-------------------------------|-------------------------------|
| Long-term accounts receivable denominated in US dollars | 6.00% | 2,510 | 4,405 |
| Long-term accounts receivable denominated in Russian rubles | 0.00% | 1,503 | 270 |
| Total long-term accounts receivable | | 4,013 | 4,675 |

Long-term accounts receivable denominated in US dollars represent amounts receivable from the sale of property, plant and equipment in November 2005 with a carrying value of US \$10 million to companies related to a former member of management of the Company. The Group recognised a gain of US \$5 million on this transaction. These receivables are secured by a pledge over the assets sold.

As these interest rates were below market rates at the date of origination these long-term accounts receivable have been recorded on the balance sheet by discounting the initial amount over the period it is to be repaid using market interest rates of 12.24%-15% and 9.91% for Russian ruble and US dollar loans, respectively, estimated by management to be the rate applicable to the Group for borrowings of a similar nature.

Note 8. Restricted cash

The Company had restricted cash of US \$2.6 million included in other non-current assets as of December 31, 2009 (2008: US \$72.4 million). This amount collateralises the Company's issuance of commercial letters of credit.

Note 9. Obligations under capital leases

The Group leases drilling equipment and vehicles under agreements with an option to purchase the leased equipment at the end of the lease term. These assets are accounted for as capital leases.

Included in machinery and equipment and vehicles is US \$3.6 million of assets under capital lease as of December 31, 2009 (2008: US \$16.4 million).

Property, plant and equipment includes assets under capital lease as follows:

| | As of December 31, 2009 | As of December 31, 2008 |
|--|-------------------------------|-------------------------------|
| At cost | 4,768 | 26,838 |
| Less: accumulated depreciation | (1,129) | (10,457) |
| Net property, plant and equipment | 3,639 | 16,381 |

Future minimum lease payments for the assets under capital lease are as follows:

| | As of December 31, 2009 |
|---|-------------------------------|
| 2010 | 886 |
| 2011 | 732 |
| 2012 | 543 |
| 2013 | 533 |
| 2014-2019 | 2,132 |
| Total minimum lease payments | 4,826 |
| Less: amount representing interest | (1,463) |
| Present value of minimum lease payments | 3,363 |
| Less: current portion (note 10) | (505) |
| Long-term obligations under capital leases (note 11) | 2,858 |

Note 10. 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 December 31, 2009 | As of December 31, 2008 |
|--|-------------------------------|-------------------------------|
| Current portion of long-term debt (note 11) | 31,291 | 37,634 |
| Short-term capital lease obligations (note 9) | 505 | 3,028 |
| Short-term debt | – | 51,059 |
| Total short-term debt and current portion of long-term debt | 31,796 | 91,721 |

Note 11. Long-term debt

Long-term debt includes the following:

| Lender | Final maturity date | As of December 31, 2009 | As of December 31, 2008 |
|--|---------------------------|-------------------------------|-------------------------------|
| <i>Debt of the Company</i> | | | |
| Loan from stockholders | 2011 | 70,000 | 70,000 |
| <i>Debt of the Company's subsidiaries</i> | | | |
| OAo AKB Sbergatelny Bank | 2013 | 58,573 | 60,295 |
| ZAO UniCredit Bank | 2012 | 22,208 | 31,654 |
| ZAO UniCredit Bank | 2009 | – | 18,363 |
| <i>Loans from LUKOIL Group companies</i> | | | |
| OOO LUKOIL-West Siberia | 2011 | 13,292 | – |
| OAo LUKOIL | 2018 | 12,788 | 21,690 |
| OOO LUKOIL-Perm | 2041 | 1,086 | 1,115 |
| OAo Tebukneft | 2014 | 337 | 394 |
| OAo LUKOIL Nizhnevolzhskneft | 2010 | 243 | 1,001 |
| OAo Kombineft | 2010 | 190 | 441 |
| OAo Uhtaneft | 2015 | 93 | 108 |
| OAo LUKOIL-Komi | 2010 | 2 | 5 |
| Total long-term debt | | 178,812 | 205,066 |
| Current portion of long-term debt (note 10) | | (31,291) | (37,634) |
| Long-term capital lease obligation (note 9) | | 2,858 | 3,706 |
| Total non-current portion of long-term debt | | 150,379 | 171,138 |

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 Sbergatelny Bank**

Long-term debts with OAo AKB Sbergatelny Bank with outstanding balance of US \$58.6 million as of December 31, 2009 are denominated in Russian rubles. These debts were given for the Company's issuance of commercial letters of credit with OAo AKB Sbergatelny Bank (refer to note 8). 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 outstanding balance of US \$22.2 million is denominated in Russian rubles and bear interest at 8.95% per annum.

Notes to the consolidated financial statements

continued

Note 11. Long-term debt continued

LUKOIL Group companies

Long-term debt of subsidiaries, denominated in Russian rubles, represents 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 of OOO Burovaya Kompaniya Eurasia, which on average was 12.66%-15% per annum.

Long-term debt of subsidiaries is secured by property, plant and equipment with a carrying amount of US \$82.3 million.

Annual maturities of long-term debts outstanding at December 31, 2009 are as follows:

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 and thereafter |
|--|--------|---------|--------|--------|------|---------------------|
| | 31,291 | 107,305 | 20,696 | 13,618 | 592 | 5,310 |

Note 12. Taxes

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.

Until January 1, 2009, operations in the Russian Federation were subject to a Federal income tax rate of 6.5% and a regional income tax rate that varied from 13.5% to 17.5% at the discretion of the individual regional administration. Starting on January 1, 2009, the Federal income tax rate is 2.0% and regional income tax rates vary from 13.5% to 18.0%.

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 in 2009 and 2008 were taxed in the Russian Federation.

As of December 31, 2009 and 2008, and during 2009 and 2008 the Group did not have any unrecognised tax benefits and thus, no interest and penalties related to unrecognised tax benefits were accrued. The Group's policy is to record interest and penalties related to unrecognised tax benefits as components of income tax expense. In addition, the Group does not expect that the amount of unrecognised tax benefits will change significantly within the next 12 months.

The Company and its subsidiaries file standalone income tax returns in each country in which they operate. Income tax returns are open for inspection by the tax authorities in Russia for tax years 2008-2009, in Turkmenistan for 2008-2009, in Kazakhstan and Cyprus for 2005-2009.

There are not currently, and have not been during the two years ended December 31, 2009, any provisions in the taxation legislation of the Russian Federation to permit the Group to reduce taxable profits in a Group company by offsetting tax losses in another Group company against such profits. Tax losses of a Group company in the Russian Federation may, however, be used fully or partially to offset taxable profits in the same company in any of the ten years following the year of loss.

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|---------------------------------------|------------------------------------|------------------------------------|
| Current income tax expense | 44,896 | 57,129 |
| Deferred income tax (benefit) expense | (1,039) | 18,142 |
| Total income tax expense | 43,857 | 75,271 |

Deferred income taxes are included in the consolidated balance sheets as follows:

| | As of December 31, 2009 | As of December 31, 2008 |
|---|-------------------------------|-------------------------------|
| Deferred income tax assets – current | 11,227 | 2,379 |
| Deferred income tax assets – non-current | 277 | 78 |
| Deferred income tax liabilities – non-current | (16,009) | (7,842) |
| Net deferred income tax liability | (4,505) | (5,385) |

Note 12. Taxes continued**Income taxes** continued

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities:

| | As of December 31, 2009 | As of December 31, 2008 |
|--|-------------------------------|-------------------------------|
| Accounts payable and accrued liabilities | 6,210 | 6,383 |
| Inventories | 5,872 | 2,047 |
| Accrued pension liability | 773 | 837 |
| Other current assets | 504 | 482 |
| Property, plant and equipment | 277 | 78 |
| Long-term debt | 266 | 189 |
| Long-term accounts receivable | 152 | 162 |
| Deferred income tax assets | 14,054 | 10,178 |
| Property, plant and equipment | (17,064) | (9,030) |
| Other current liabilities | (1,033) | (67) |
| Accounts receivable | (309) | (6,466) |
| Long-term debt | (136) | – |
| Inventories | (17) | – |
| Deferred income tax liabilities | (18,559) | (15,563) |
| Net deferred income tax liability | (4,505) | (5,385) |

Based upon the level of historical taxable income and expectations for future taxable income over future periods, in which the deferred income tax assets are deductible, management believes it is more likely than not the Group will realise the benefits of these deductible temporary differences as of December 31, 2009 and 2008.

The Company has not recognised deferred income taxes on US \$654 million of undistributed earnings of its Russian subsidiaries, since such earnings are considered to be reinvested indefinitely. If the earnings were distributed in the form of dividends, the Company would be subject to foreign withholding taxes. The amount of unrecognised deferred income tax liability is US \$33 million.

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian combined statutory income tax rate to income before income taxes to total income taxes:

| | As of December 31, 2009 | As of December 31, 2008 |
|---|-------------------------------|-------------------------------|
| Income before income taxes | 209,347 | 296,204 |
| Notional income tax at Russian statutory rate | 41,869 | 71,089 |
| Increase (reduction) in income tax due to: | | |
| Non-deductible items, net | 1,418 | 4,698 |
| Domestic regional rate differences | (1,371) | (1,293) |
| Effect of enacted tax rate changes | – | (1,325) |
| Foreign rate differences | 1,941 | 2,102 |
| Total income tax expense | 43,857 | 75,271 |

Notes to the consolidated financial statements

continued

Note 12. Taxes continued

Income taxes continued

Taxes receivable include the following:

| | As of December 31, 2009 | As of December 31, 2008 |
|-------------------------------|-------------------------------|-------------------------------|
| Prepaid profit taxes | 18,571 | 21,417 |
| Prepaid VAT | 12,977 | 8,578 |
| VAT recoverable | 3,260 | 7,342 |
| Other taxes | 964 | 364 |
| Total taxes receivable | 35,772 | 37,701 |

Taxes payable include the following:

| | As of December 31, 2009 | As of December 31, 2008 |
|--------------------------------|-------------------------------|-------------------------------|
| VAT | 35,015 | 22,684 |
| Social taxes and contributions | 8,267 | 8,503 |
| Personal income tax | 5,564 | 5,780 |
| Property tax | 2,947 | 3,117 |
| Profit taxes payable | 326 | 3,685 |
| Road tax | 107 | 86 |
| Other taxes | 1,237 | 1,937 |
| Total taxes payable | 53,463 | 45,792 |

Note 13. Pension benefits

The Company sponsors a post employment and post retirement benefits program. The primary component of the post employment and postretirement benefits program is a defined benefit pension plan that covers the majority of the Company's employees. This plan is administered by a non-state pension fund, LUKOIL-GARANT, and provides pension benefits. The Company also provides several long-term employee benefits such as death-in-service benefits and lump-sum payments upon retirement of a defined benefit nature. Additionally the company provides financial support of a defined benefit nature, to its old age and disabled pensioners who have not vested any pensions under the pension plan. As a result of a decrease in financial support a prior service benefit in the amount of US \$1.0 million arose in 2009. It will be amortised starting from 2010 during expected future years of service of participants active at the date of the amendment who are expected to receive benefits under the plan.

The post employment and post retirement benefits program was inherited by the Company from the LUKOIL Group as of the dates of acquisitions.

The Company's pension plan primarily consists of a defined benefit plan enabling employees to contribute a portion of their salary to the plan and at retirement to receive a lump sum amount from the Company equal to all past contributions made by the employee up to 3.5% of their annual salary. Employees also have the right to receive upon retirement the benefits accumulated under the previous pension plan when OOO Burovaya Kompaniya Eurasia was a subsidiary of the LUKOIL Group. This plan was replaced in December 2003. These benefits have been fixed and included in the benefit obligation as of December 31, 2009 and 2008. The amount was determined primarily based on a formula including past pensionable service and relative salaries as of December 31, 2003.

The Company uses December 31 as the measurement date for its post employment and post retirement benefits program. An independent actuary has assessed the benefit obligations as of December 31, 2009 and 2008.

LUKOIL-GARANT is a multiemployer pension plan in which OOO Burovaya Kompaniya Eurasia and newly acquired companies' (OOO KWWD and OOO UWWD) employees participate. The information that follows represents the obligations and assets attributable to OOO Burovaya Kompaniya Eurasia, OOO KWWD and OOO UWWD employees participating in this pension plan.

Note 13. Pension benefits *continued*

The following table provides information about the benefit obligations and plan assets as of December 31, 2009 and 2008. The benefit obligations below represent the projected benefit obligation of the pension plan.

| | 2009 | 2008 |
|--|---------------|---------------|
| Benefit obligations | | |
| Benefit obligations as of January 1 | 12,009 | 12,385 |
| Plan Amendments | (1,767) | – |
| Actuarial (gain) loss | (1,095) | 1,331 |
| Interest cost | 997 | 781 |
| Service cost | 485 | 682 |
| Benefits paid | (654) | (829) |
| Acquisitions | 1,931 | – |
| Effect of exchange rate changes | (348) | (2,341) |
| Benefit obligations as of December 31 | 11,558 | 12,009 |
| Plan assets | | |
| Fair value of plan assets as of January 1 | 7,822 | 7,525 |
| Employer contributions | 320 | 1,292 |
| Other changes in fair value of individual pension accounts | (249) | 876 |
| Return on plan assets | 369 | 263 |
| Interest income on individual pension accounts | 304 | 213 |
| Benefits paid | (654) | (829) |
| Effect of exchange rate changes | (219) | (1,518) |
| Fair value of plan assets as of December 31 | 7,693 | 7,822 |
| Funded status | (3,865) | (4,187) |
| Amounts recognised in the consolidated balance sheet as of December 31, 2009 and 2008 | | |
| Accrued pension liability | (3,865) | (4,187) |

Weighted average assumptions used to determine benefit obligations as of December 31, 2009 and 2008:

| | 2009 | 2008 |
|---------------|-------|-------|
| Discount rate | 8.70% | 9.00% |

Weighted average assumptions used to determine net periodic benefit costs for the year ended December 31, 2009 and 2008:

| | 2009 | 2008 |
|--------------------------------|--------|--------|
| Discount rate | 8.70% | 9.00% |
| Expected return on plan assets | 10.07% | 10.90% |

Included in accumulated other comprehensive loss as of December 31, 2009 and 2008, are the following before-tax amounts that have not yet been recognised in net periodic benefit cost:

| | 2009 | 2008 |
|------------------------------------|--------------|--------------|
| Unamortised prior service benefit | 1,853 | – |
| Unrecognised actuarial gain (loss) | 1,050 | (210) |
| Total credit (costs) | 2,903 | (210) |

Amounts recognised in other comprehensive loss before tax during the years ended December 31, 2009 and 2008:

| | 2009 | 2008 |
|---|--------------|--------------|
| Additional prior service benefit from plan amendment | 1,853 | – |
| Additional gain (loss) arising during the period | 846 | (551) |
| Net amount recognised in other comprehensive income for the period | 2,699 | (551) |

The real expected rates of return on bonds and equities are based on what is observed in the international markets over extended periods of time. In the calculation of the expected return on assets no use is made of the historical returns LUKOIL-GARANT has achieved.

Notes to the consolidated financial statements

continued

Note 13. Pension benefits continued

In addition to the plan assets, LUKOIL-GARANT holds assets in the form of an insurance reserve. The purpose of this insurance reserve is to satisfy pension obligations should the plan assets not be sufficient to meet pension obligations. The Group's contributions to the pension plan are determined without considering the assets in the insurance reserve.

The plans are funded on a discretionary basis through a solidarity account, which is held in trust with LUKOIL-GARANT. LUKOIL-GARANT does not allocate separately identifiable assets to the Group or its other third party clients. All funds of plan assets and other individual pension accounts are managed as a pool of investments.

The asset allocation of the investment portfolio maintained by LUKOIL-GARANT for the Group and its clients was as follows:

| Type of assets | As of December 31, 2009 | As of December 31, 2008 |
|--------------------------------------|-------------------------------|-------------------------------|
| Bank deposits | 42% | 22% |
| Russian corporate bonds | 25% | 36% |
| Shares in investment funds | 14% | 20% |
| Equity securities of Russian issuers | 8% | 10% |
| Russian municipal bonds | 4% | 2% |
| Promissory notes of Russian issuers | 3% | 6% |
| Shares of OAO 'LUKOIL' | 2% | 2% |
| Other assets | 2% | 2% |
| | 100% | 100% |

The investment strategy employed by LUKOIL-GARANT includes an overall goal to attain a maximum investment return, while guaranteeing the principal amount invested. The strategy is to invest with a medium-term perspective while maintaining a level of liquidity through proper allocation of investment assets. Investment policies include rules and limitations to avoid concentrations of investments.

The investment portfolio is primarily comprised of two types of investments: securities with fixed yield and equity securities. The securities with fixed yield include mainly high yield corporate bonds. Maturities range from one to three years.

Components of net periodic benefit cost were as follows:

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|------------------------------------|------------------------------------|
| Interest cost | 997 | 781 |
| Service cost | 485 | 682 |
| Less expected return on plan assets | (712) | (673) |
| Total net periodic benefit cost | 770 | 790 |

Total employer contributions for 2010 are expected to be approximately US \$0.6 million.

Accumulated benefit obligations were US \$10.0 million and US \$10.1 million as of December 31, 2009 and December 31, 2008, respectively.

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

| | 2010 | 2011 | 2012 | 2013 | 2014 | 5-year period 2010-2014 | 5-year period 2015-2019 |
|---|--------------|--------------|--------------|--------------|--------------|----------------------------|----------------------------|
| Pension benefits | 1,393 | 712 | 707 | 748 | 814 | 4,374 | 3,313 |
| Lump sum payments upon retirement, death and disability | 334 | 308 | 322 | 318 | 297 | 1,579 | 1,440 |
| Total expected benefits to be paid | 1,727 | 1,020 | 1,029 | 1,066 | 1,111 | 5,953 | 4,753 |

Note 14. Fair value of financial instruments

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

Note 15. Cost of services

Cost of services includes the following:

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|--|------------------------------------|------------------------------------|
| Services of subcontractors | 320,379 | 482,366 |
| Wages and salaries | 222,603 | 294,042 |
| Materials | 218,718 | 463,679 |
| Fuel and energy | 63,581 | 93,305 |
| Transportation of employees to drilling fields | 28,143 | 43,307 |
| Leasing and rent | 10,857 | 17,350 |
| Other | 47,769 | 59,669 |
| Total cost of services | 912,050 | 1,453,718 |

Note 16. Stockholders' equity

Common and treasury stock

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|---|------------------------------------|------------------------------------|
| Authorised and issued common stock, par value 0.01 US dollar each | 146,865,243 | 146,865,243 |
| Treasury stock | (12,421,825) | (9,557,245) |
| Issued and outstanding common stock, par value 0.01 US dollar each | 134,443,418 | 137,307,998 |

During 2009 the Group acquired additional 2,961,009 shares of common stock as a part of the Company's stock buyback program.

During to 2009 the Group awarded 96,429 shares of common stock held as treasury stock to certain number of directors as a compensation fee.

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 19.8 billion and RUR 14.3 billion, respectively as of December 31, 2009 and 2008, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2009 and 2008 amount to US \$654 million and US \$487 million, respectively.

At the Board of Directors meeting on December 15, 2009, dividends were declared for 2009, in the amount of US \$0.25 per common share. Dividends payable by the Company of US \$34 million were included in 'Accounts payable and accrued liabilities' in the consolidated balance sheet as of December 31, 2009.

At the Board of Directors meeting on December 16, 2008, dividends were declared for 2008, in the amount of US \$0.25 per common share. Dividends payable by the Company of US \$34 million are included in 'Accounts payable and accrued liabilities' in the consolidated balance sheet as of December 31, 2008 and this amount fully paid during 2009.

Notes to the consolidated financial statements

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Note 16. Stockholders' equity continued

Earnings per share

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

| | Year ended December 31, 2009 | Year ended December 31, 2008 |
|---|------------------------------------|------------------------------------|
| Net income available for common stockholders | 165,490 | 220,933 |
| Weighted average number of outstanding shares (post split) | 135,121,647 | 146,126,927 |
| Basic earnings per share of common stock (US dollars) | 1.22 | 1.51 |
| Contingent shares of stock incentive program (refer to note 22) | 718,868 | – |
| Weighted average number of outstanding shares, after dilution | 135,840,515 | 146,126,927 |
| Diluted earnings per share of common stock (US dollars) | 1.22 | 1.51 |

Note 17. Business combinations

In December 2009, Eurasia Drilling Company Group acquired 100% interests in OOO Tekhgeoservice (OOO TGS) for RUR 1.06 billion (or US \$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.

This business combination did not have a material impact on the Group's consolidated operations for the years ended December 31, 2009 and 2008. Therefore, no pro forma income statement information has been provided.

The Group allocated US \$30.8 million to goodwill, US \$4.6 million to property, plant and equipment, US \$3.9 million to current assets, US \$0.3 million to long-term deferred tax liabilities and US \$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 US \$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 US \$31.1 million to property, plant and equipment, US \$28.1 million to other assets, US \$13.3 million to short-term and long-term debt, US \$0.6 million to long-term deferred tax liability, US \$21.2 million to other liabilities and recognised US \$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.

The revenue and net income of the acquired workover companies for the year ended December 31, 2009 are US \$150.0 million and US \$2.0 million, respectively. These companies were reorganised into separate legal entities in the end of 2008. Therefore, no comparative amounts have been provided for the year ended December 31, 2008.

Note 18. 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 metres. 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 US \$610 million will be provided by the Group during 2010.

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. 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 over the estimated remaining lives of the related assets or recognised 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 characterised 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.

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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Notes to the consolidated financial statements

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Note 19. 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.

In 2006 the Group received property, plant and equipment under capital lease from an associated company OAO LK Leasing, with a carrying value of US \$11.7 million. Capital lease obligations as of December 31, 2009 were nil (2008: US \$3.1 million).

The Company's General Counsel, Douglas Stinemetz, is a partner with The Stinemetz Law Firm. During 2009 and 2008 the firm billed the Company for costs and expenses of US \$1.3 million and US \$1.6 million, respectively. Mr. Stinemetz is not otherwise paid for his services as the Company's General Counsel.

In 2007 and 2006, the Company received long-term loans of US \$10 million and US \$60 million from its stockholders, respectively (refer to note 11). Interest expense of US \$6.0 million was recognised and paid during 2009 (2008: US \$6.0 million). The outstanding balance was US \$70 million as of December 31, 2009 and 2008.

Note 20. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended December 31, 2009 and 2008, 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 organisational 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 summarised as follows:

For the year ended December 31, 2009

| | On-shore drilling services (CIS) | Off-shore drilling services (Caspian Sea) | Consolidated |
|---------------------|--|---|------------------|
| Total revenue | 1,313,068 | 69,135 | 1,382,203 |
| Net income | 141,782 | 23,708 | 165,490 |
| Total assets | 1,440,372 | 83,036 | 1,523,408 |

For the year ended December 31, 2008

| | On-shore drilling services (CIS) | Off-shore drilling services (Caspian Sea) | Consolidated |
|---------------|--|---|--------------|
| Total revenue | 2,042,025 | 59,754 | 2,101,779 |
| Net income | 217,654 | 3,279 | 220,933 |
| Total assets | 1,387,326 | 58,209 | 1,445,535 |

Note 21. 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.

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

| | 2009 | 2008 |
|---------------------------------------|---------|-----------|
| Sales for the year ended December 31 | 947,590 | 1,555,966 |
| Accounts receivable as of December 31 | 106,500 | 100,855 |

Note 22. 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 US \$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 US \$21 million by an independent consulting firm. The Company has approximately US \$12.6 million of unrecognised compensation expense as of December 31, 2009 that will be accrued up to 2012.

During 2008, there were no awards of cash or stock in regard to the stock incentive plan. The Group recognised US \$4.2 million of compensation expense during the year ended December 31, 2008 based upon projections for the entire five year period. The related liability of US \$4.2 million is included in 'Accounts payable and accrued liabilities' of the consolidated balance sheet as of December 31, 2008.

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 recognised US \$4.2 million of compensation expense during 2009. As of December 31, 2009 US \$8.4 million is recognised as an increase in additional paid-in capital.

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

Note 23. Subsequent events

On April 15, 2010 the Company completed a placing of 11,972,178 GDRs repurchased by the Group as part of its buyback program at a price of US \$19.00 per GDR. In connection with the placing the Company announced a one-time special interim dividend of US \$179 million which is equivalent to the gain realised by the Group during its buyback program. The record date for the special interim dividend is April 30, 2010 and the payment date is May 19, 2010.

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

Corporate information

Directors

Earl of Clanwilliam

(formerly Lord Patrick James Gillford)
Chairman of the Board of Directors,
Eurasia Drilling Company Ltd.
Principal, Policy Partnership Ltd.

Alexander Yu. Djaparidze

Chief Executive Officer,
Eurasia Drilling Company Ltd.

L. Todd Gremillion

Former Partner, Akin, Gump, Strauss,
Hauer & Feld

Martin E. Hansen

Former Chief Financial Officer,
Eurasia Drilling Company Ltd.

Rene Huck

Former Vice-President, Schlumberger

Vladimir Kalyuzhny

Former Extraordinary and
Plenipotentiary Ambassador
of the Russian Federation in
the Republic of Latvia

Alexander Shokhin

Member, Board of Directors, LUKOIL
Member, Board of Directors, TNK BP

Officers

Alexander Yu. Djaparidze

Chief Executive Officer

Murat Sampiev

Chief Operating Officer

W. Richard Anderson

Chief Financial Officer

Murray L. Vasilev

Senior Vice President
Business Development

S. Douglas Stinemetz

General Counsel and Secretary

Subsidiary officers

Alexander N. Bogachev

President, OOO Burovaya
Kompaniya Eurasia

Taleh M. Aleskerov

Senior VP Finance and CFO,
OOO Burovaya Kompaniya Eurasia

Medjid M. Zulpukarov

General Director, BKE Shelf Ltd.

Vladimir Kurlyshev

General Director, OOO NTS

Yury Sitlivy

President, EDC International Ltd.

Registered address

Eurasia Drilling Company Limited

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PO Box 1111
Grand Cayman KY1-1102
Cayman Islands

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Aristide Charalambous 2
1077 Nicosia
Cyprus

Financial advisers

Goldman Sachs International
CJSC Investment Company
'Troika Dialog'

Transfer agent

JP Morgan Securities Ltd

Legal advisers

Skadden, Arps, Slate,
Meagher & Flom LLP & Affiliates

Bankers

Barclays Bank PLC
OAO Sberbank
(Zapadno-Uralskiy branch)
ZAO Unicredit Bank

Auditors

ZAO KPMG

Annual General Meeting

The Annual General Meeting
of Members of Eurasia Drilling
Company Limited will be held
on Friday, September 16, 2010
in Cannes, France.

Investor relations contacts

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Investor Relations

Evgenia Bitsenko

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