

Eurasia Drilling Company Ltd.

2010 Interim Period Results

September 2010

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Agenda

- Overview: EDC at a glance
- Investment case
- Performance and positioning
- Inorganic growth opportunities
- 2010 outlook
- Q&A

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EDC at a glance



No.1

Largest independent drilling company in Russia

459

Rig fleet including 208 onshore 1 offshore and 250 workover rigs

24%

Market share onshore Russia as measured meters drilled (1H10)

1,974

Thousand meters drilled onshore during 1H10

1st Half 2010

Growth (vs. 1H09)

Revenue	US \$862,013k	+ 28%
Net Income	US \$ 104,810k	+ 34%
EBITDA	US \$ 206,343k	+ 40%
EBITDA margin	23.9%	+ 2%
Meters drilled	1,974k meters	+ 2%

Key Customers



EDC's Geography



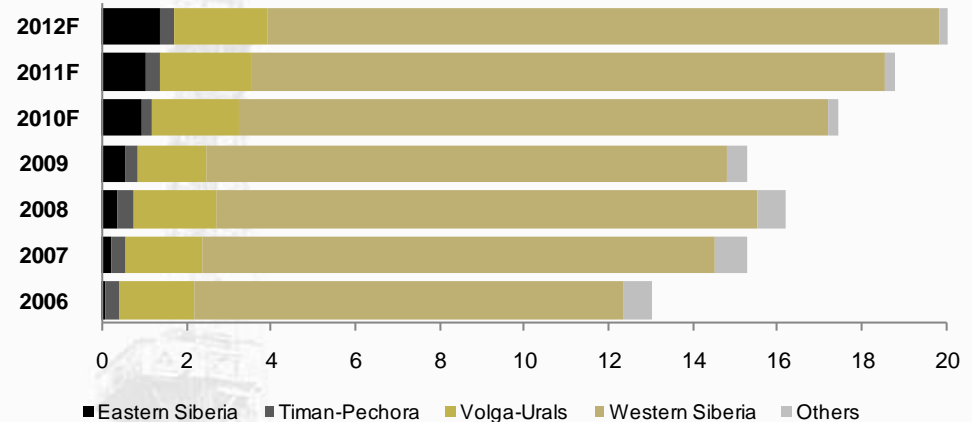
OUR LOCATIONS



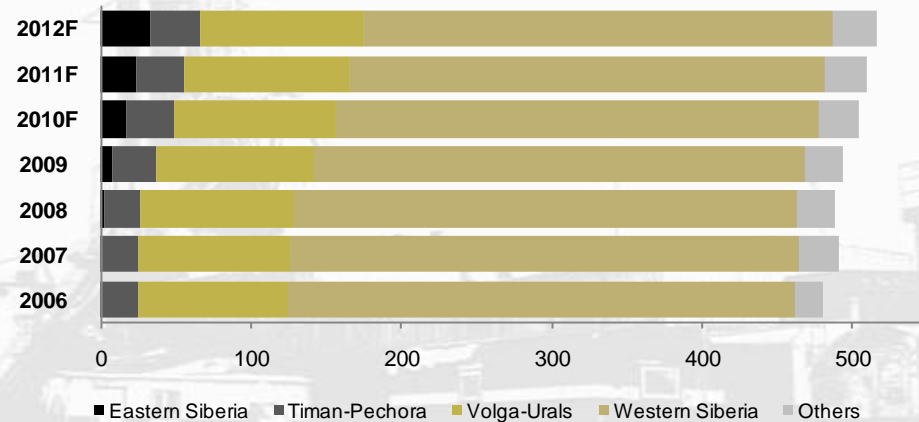
Growth prospects

- Total meters drilled onshore Russia during 1H10 were **14%** above 1H09.
- As per REnergy, demand for drilling is expected to grow around **9.4%** per year, to over 20 million meters by 2012
- Based on current drilling rates, and including certain efficiency improvements, the onshore rig fleet in Russia may be nearing **1,200** active rigs by 2013
- Rig demand and E&P capex growth rates will be faster in Greenfield areas, where drilling is more complex and ROP are lower

Russia's Onshore Market by Meters Drilled (mln)



Russia's Crude Production (mln tons per year)



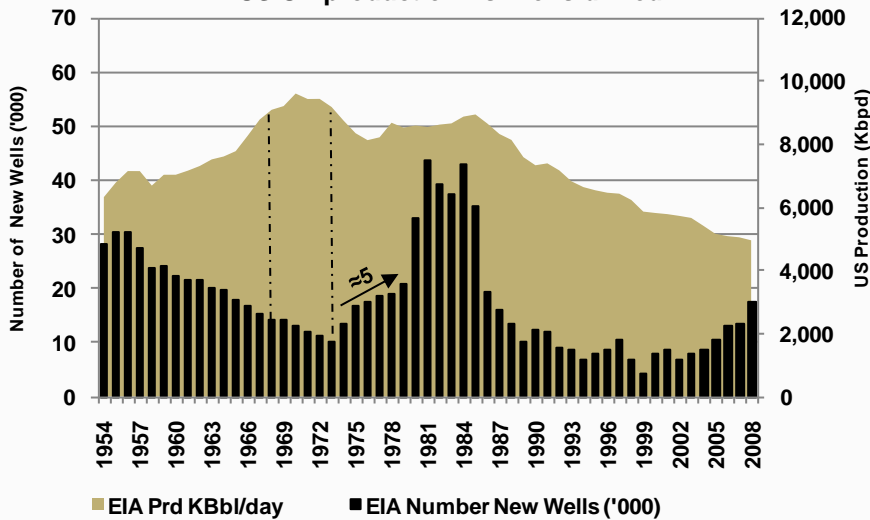
Source: REnergyCo as of Aug 2010.

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US Oil Industry in 1970s

Russia oil industry today

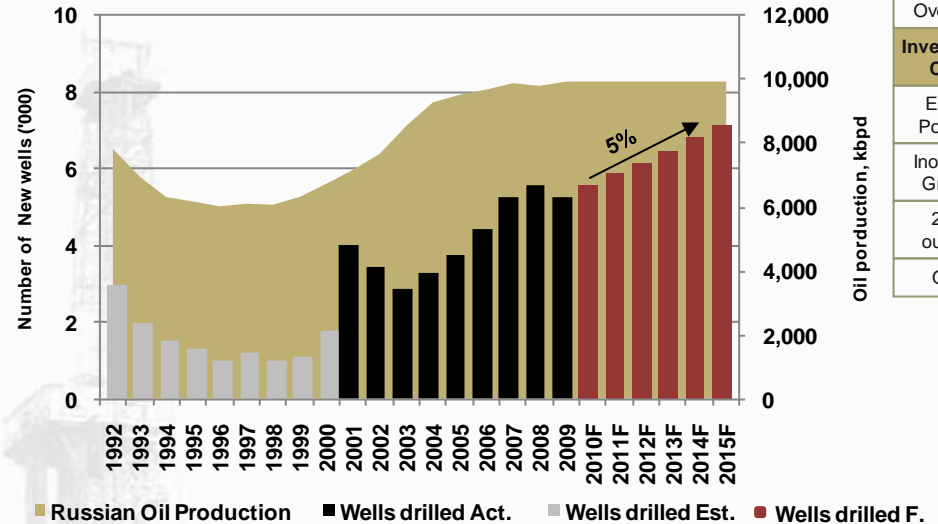
US Oil production vs Wells drilled



Source: EIA

- US production peaked in 1970s; over the next 10 years drilling activity triples in an effort to maintain peak production
- When drilling activity significantly decreased in 1985, production went into a steady decline

Russian Oil Production vs Wells drilled



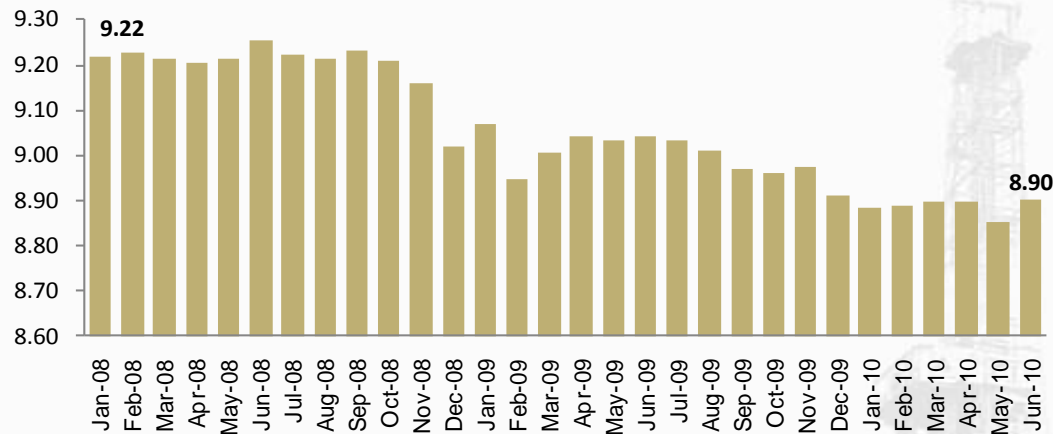
Source: EIA, CDU TEK, Company Estimates

- Russia production appears to be reaching its peak and drilling must increase to sustain the current peak level
- REnergy assumes 9.4% CAGR for onshore drilling market in Russia for the next 3 years; while we being more conservative assume 5% growth rate for our internal planning process.

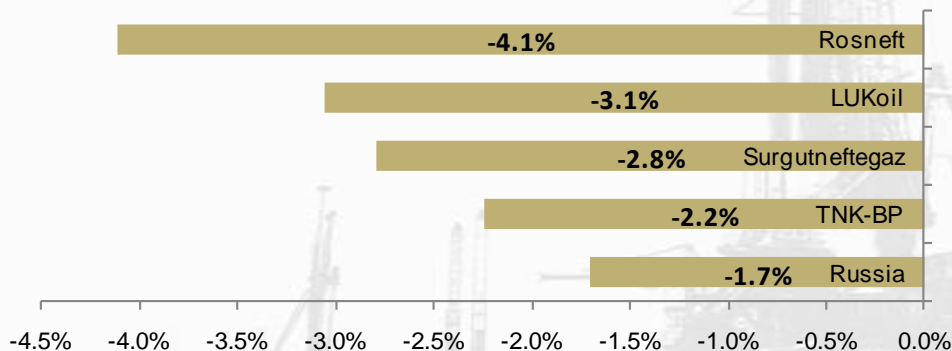
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“Legacy output is deteriorating...”

Russia Brownfield Oil Production, mlnbpd



Y-o-Y Decline in Brownfield Production in 2Q 2010



- Oil production is hitting post-Soviet highs, the legacy output is demonstrating deterioration since 3Q08;
- The industry has lost 320 kbpd in Brownfield production in two and a half years;
- Most profitable integrated oil companies in Russia are showing the highest decline rates on legacy production;
- Brownfield production is defined as Russia total output minus PSA, Gazprom and Novatek condensate, TNK-BP Uvat, LUKoil Naryanmarneftegaz and three East Siberian oil fields

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Onshore Trends

Russian Trends

Certain trends are well known:

- Output per well is falling; production difficult to maintain
- Russian rig fleet is aging; applications are evolving
- Customers are demanding higher specification rigs
- In-house OFS being divested

Others are less obvious:

- Depths/complexity increasing
- Assets are becoming scarce
- Logistics more challenging

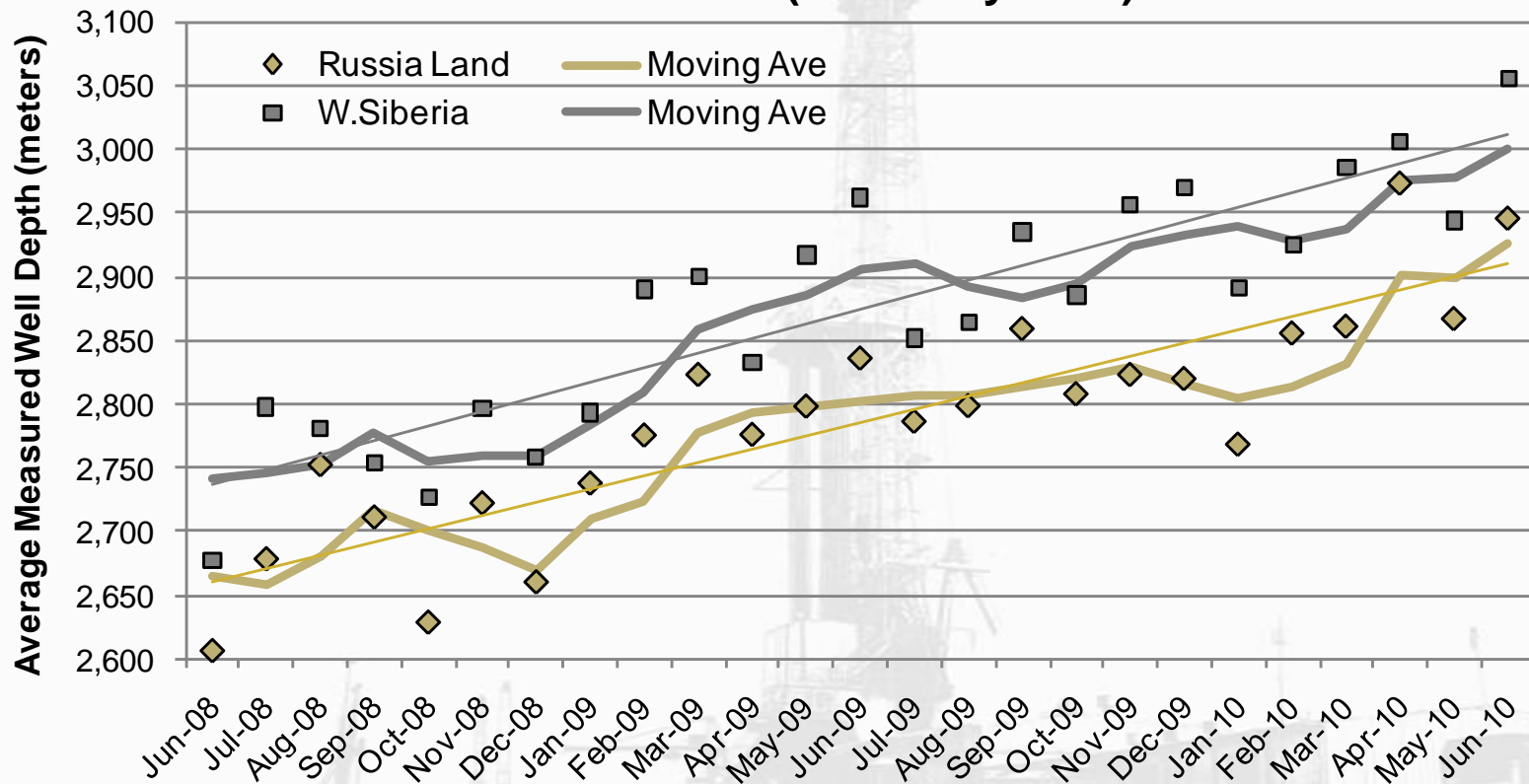
Results

- Market commentators expect drilling to grow 6-11% per year for 5-10 years
- 100's of rigs to replace/refurb; cluster rigs dominant type
- New mud pumps/cleaning sys, VFDs, Top Drives, etc.
- Higher degree of market spread
- Fleets must be heavier
- Fleets must be more efficient
- Fleets must be more mobile

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Depth Trends

Average Well Depths (MD) Onshore Russia (Drilled by BKE)



Source: Company data

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Operational Highlights



Onshore drilling

- Drilling output was 1,927 thousand meters during 1H10, 2% above 1H09;
- Reduced our reliance on our largest customer, for 1H10 its' share accounts for 60% of our total drilling volumes compared to 63% during 1H09;
- Further diversified our customer portfolio by commencing drilling operations for TNK BP in May 2010;
- Ordered 5 new rigs for expected onshore operations outside of the CIS and 2 rigs for our operations in Russia with projected delivery times commencing in Oct 2010;
- Exploration drilling backlog in 2010 is twice as high as in 2009;
- Our workover business continues to positively contribute to our operations;

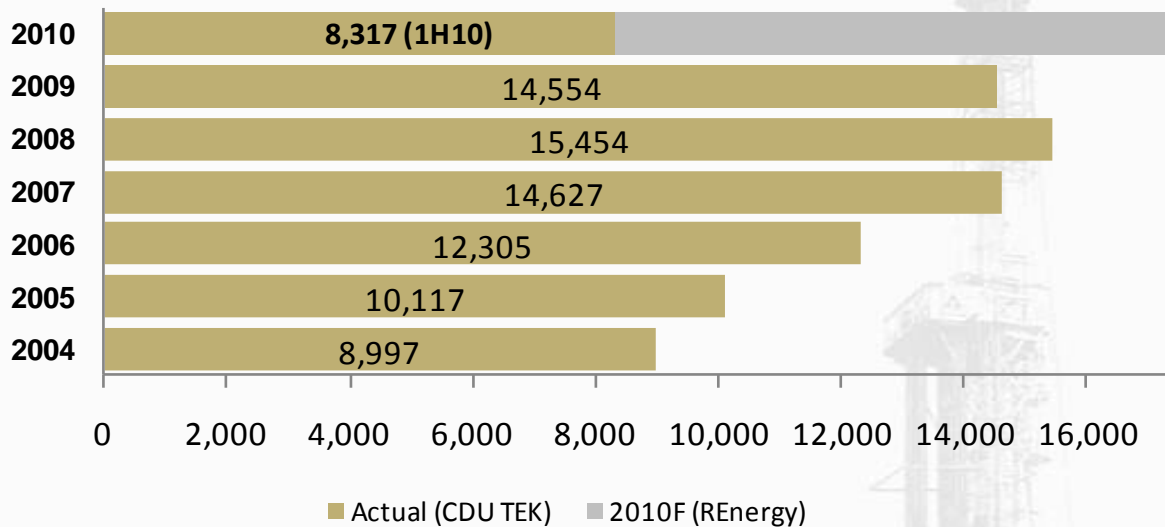
Offshore operations

- Employed fully our jack-up rig, ASTRA, in Turkmen and Russian waters of the Caspian Sea; three directional production wells were drilled and completed;
- Continued our operations on LUKOIL's Yuri Korchagin field platform in the Caspian Sea where we drilled three wells.

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Onshore drilling market

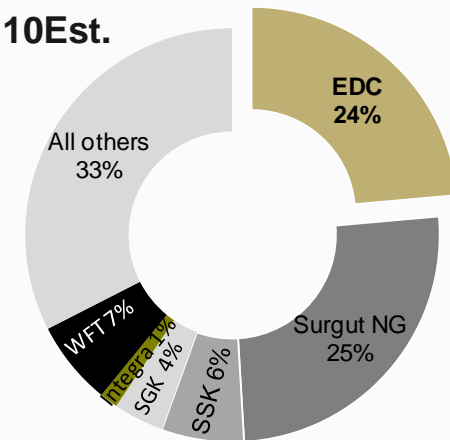
Russia Onshore Meters Drilled (th. meters)



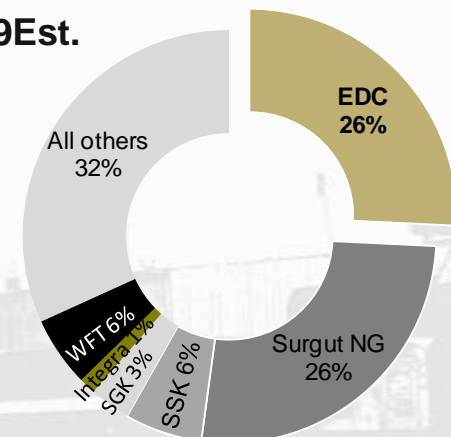
- In the first six months of 2010 we witnessed a **revival** in the drilling activity of almost all the Russian oil majors, except for our major client;
- Production drilling volumes are up **14%** y-o-y;
- Exploration drilling volumes are up **46%** y-o-y

Market Share

1H10Est.



2009Est.



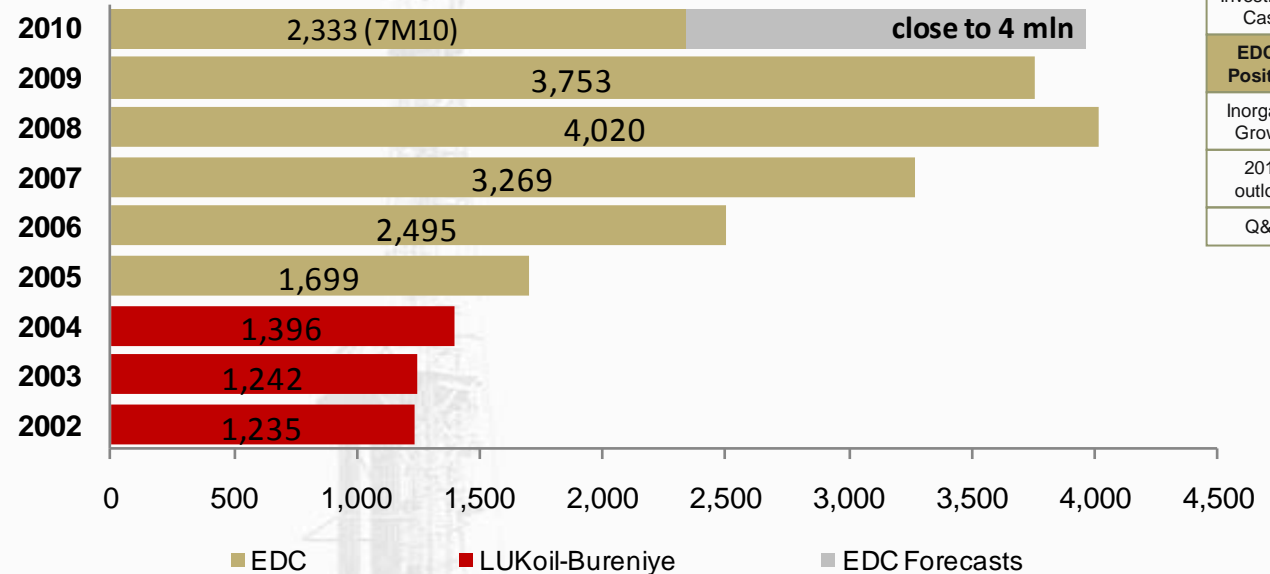
Sources: CDU TEK and Company estimates, based on Russian Onshore meters drilled

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EDC is a growth story

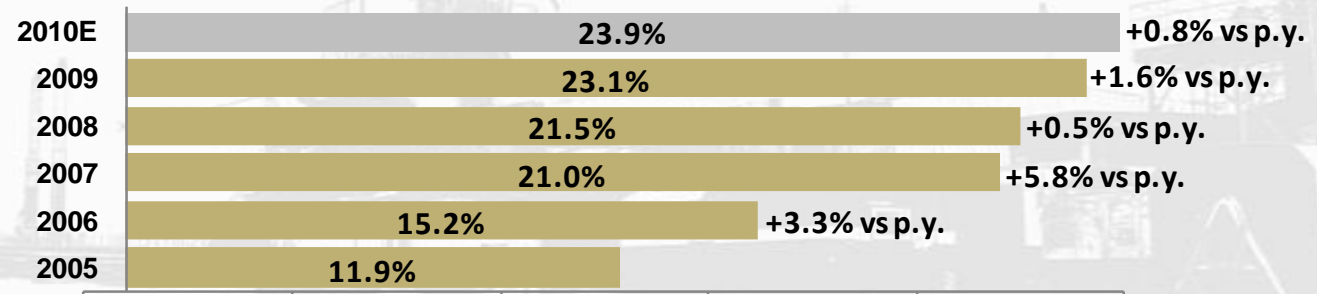
- EDC demonstrated **CAGR of 22%** in drilling volumes during its operating history as independent driller;
- In March 2010 we drilled a record of **398 th. meters** per month;
- The growth was achieved **organically**;
- For the 5 years EDC improved its **EBITDA margin** by approximately **11%**;

EDC Drilling Volume Performance (th. meters)



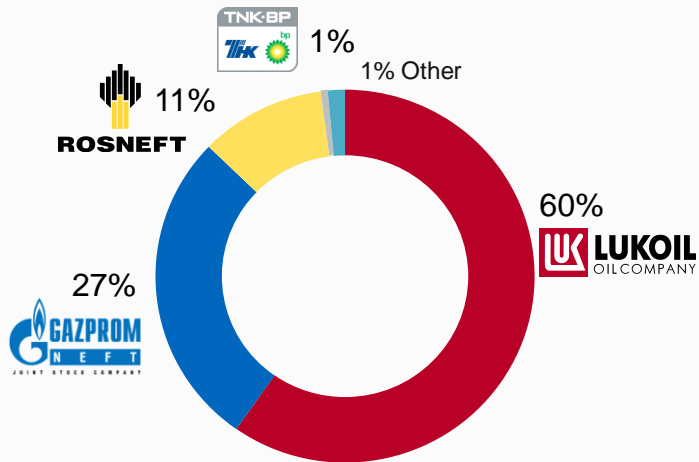
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EBITDA Margin Growth

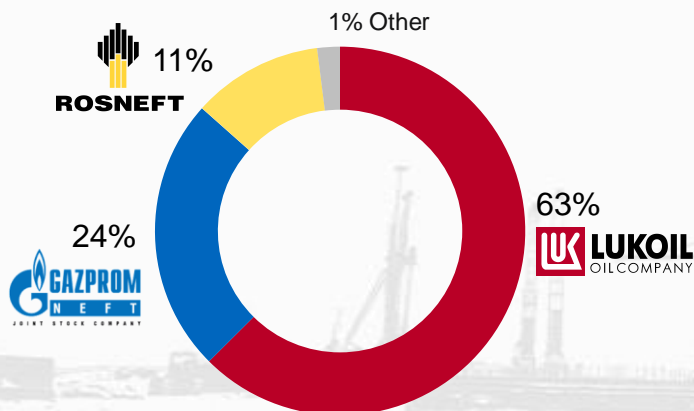


Customer base

1H 2010



2009



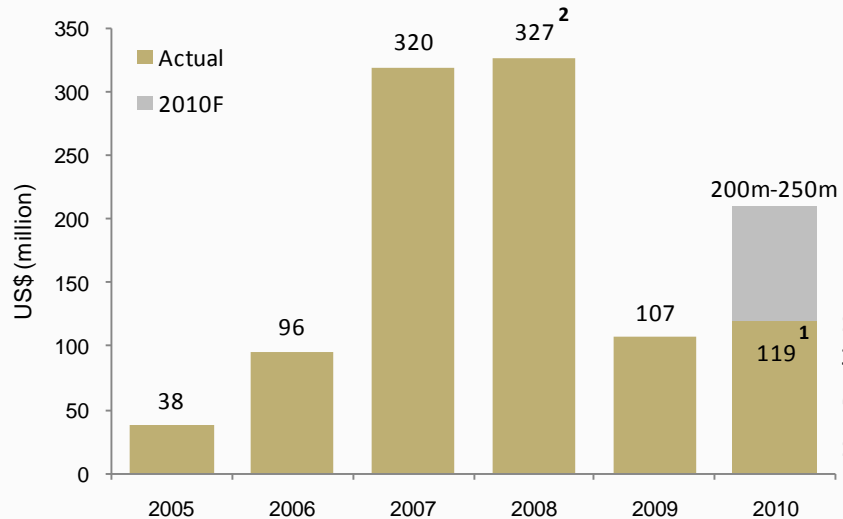
Contracts Developments

- In 2007 the share of our major client accounted for 77% of total meters drilled;
- Our continuous efforts on diversifying our customer base, resulted in increase in share of **non-Lukoil customers to 40%** in total meters drilled;
- We drilled **795 thousand meters** for non-Lukoil customers during 1H10- 12% above 1H09;
- In 2009 we began work for four new clients in Russia, including RussNeft and Samara-Nafta;
- In 2010 we won important contracts for drilling with TNK BP as well as PechoraNeft and Rusvietpetro;

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Rig Fleet and CAPEX outlook

Expected CAPEX Expenditure



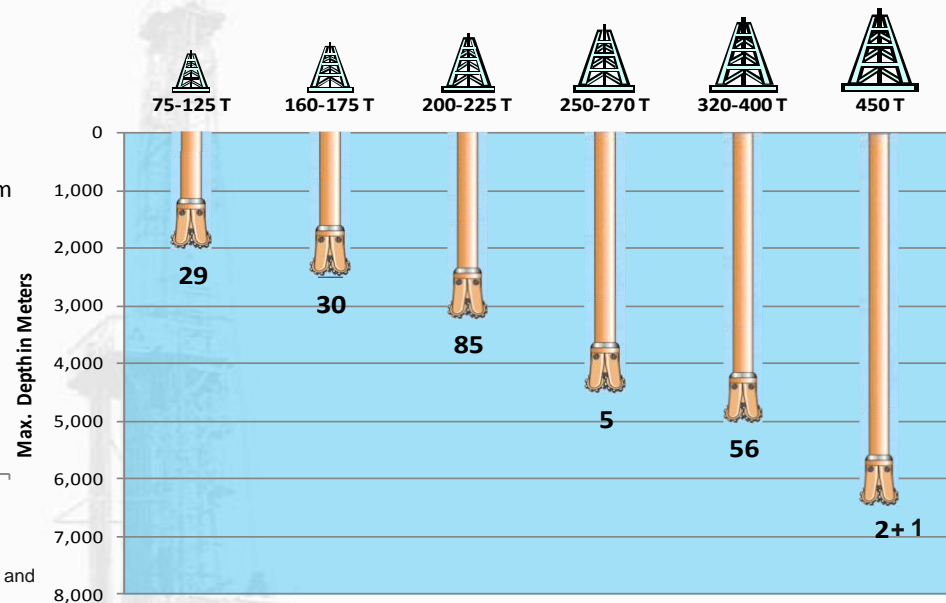
Note: Purchases of property, plant and equipment as set forth in EDC's audited consolidated statements of cash flows for the years ended 31 December 2005, 2006 and 2007, 2008 & 2009 and unaudited 2010 Interim Period financial statements

¹ 1H10

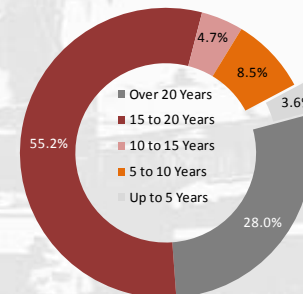
² Includes cash committed in 2008 for equipment delivered in 2009

We have ordered **5 new rigs** with projected delivery times commencing in October 2010 for expected onshore operations outside of the CIS and **2 rigs** for our operations in Russia

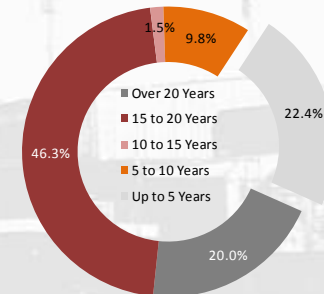
EDC's Rig Fleet



Russian Fleet Age



EDC Fleet Age



Source : Douglas Westwood, Company estimates

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Financial Highlights



- **Revenue** for 1H10 was **US \$862** million which is US \$189 million above 1H09;
- **EBITDA margin** improved to **23.9%** for 1H10, 2% above 2H09 ;
- **Net Income** for 1H10 was **US \$105** million which is US \$27 million above 1H09;
- **Net income margin** for 1H10 was **12.2%** which is 0.6% above 1H09;
- **Diluted earnings per share** for 1H10 were **US \$0.75**;
- **Net cash position** (cash reduced by all debt) was **US\$ 219** million as of June 30, 2010;
- During the Interim Period of 2010 paid **dividends** in the amount of **US \$213** million including a US \$179 million special dividend on a treasury share sales transaction and a US \$34 million dividend resulting from our successful 2009 operations;
- **Capital expenditures** for 1H10 were **US \$119** million including changes in restricted cash as compared to US \$66 million incurred during 1H09;

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Summary financials

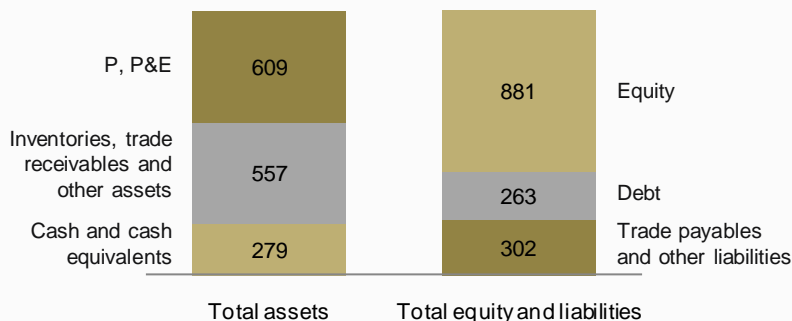


(USD thousands)	2007 Audited	2008 Audited	2009 Audited	1H 2009 Unaudited	1H 2010 Unaudited
Revenue	\$ 1,492,189	\$ 2,101,779	\$ 1,382,203	\$ 673,188	\$ 862,013
<i>% growth</i>	37.2%	40.9%	-34.2%	-25.8%	28.0%
EBITDA	\$ 313,751	\$ 452,720	\$ 319,813	\$ 147,482	\$ 206,343
<i>% margin</i>	21.0%	21.4%	23.1%	21.9%	23.9%
Net income	\$ 168,544	\$ 220,933	\$ 165,490	\$ 78,392	\$ 104,810
<i>% margin</i>	11.3%	10.5%	12.0%	11.6%	12.2%
Operating cash flow	\$ 173,320	\$ 309,851	\$ 409,507	\$ 168,931	\$ 109,599
Free Cash Flow	\$ (146,420)	\$ (17,164)	\$ 302,692	\$ 102,775	\$ (9,713)
Capital Expenditures	\$ 319,740	\$ 327,015	\$ 106,815	\$ 66,156	\$ 119,312
Net cash/ (net debt position)	\$ 58,684	\$ 16,571	\$ 251,549	\$ 92,930	\$ 219,268
Dividend per share (US\$)	n.a.	\$ 0.25	\$ 0.25	-	\$ 1.22
EPS (US\$)	n.a.	\$ 1.51	\$ 1.22	\$ 0.57	\$ 0.75

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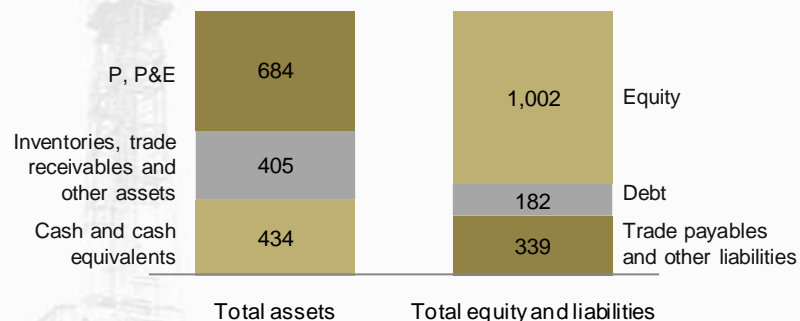
Balance Sheet Overview

Balance Sheet, as of 31-Dec-08 (USD mm)



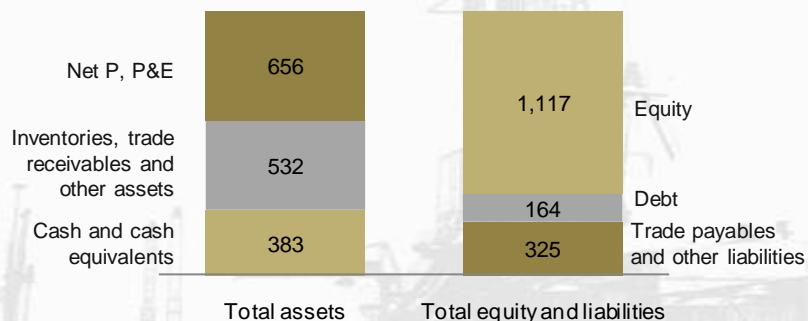
Equity ratio¹: 77.0%

Balance Sheet, as of 31-Dec-09 (USD mm)



Equity ratio¹: 84.6%

Balance Sheet, as of 30-Jun-2010 (USD mm)



Equity ratio¹: 87.2%

¹ Calculated as total equity to total equity plus total debt

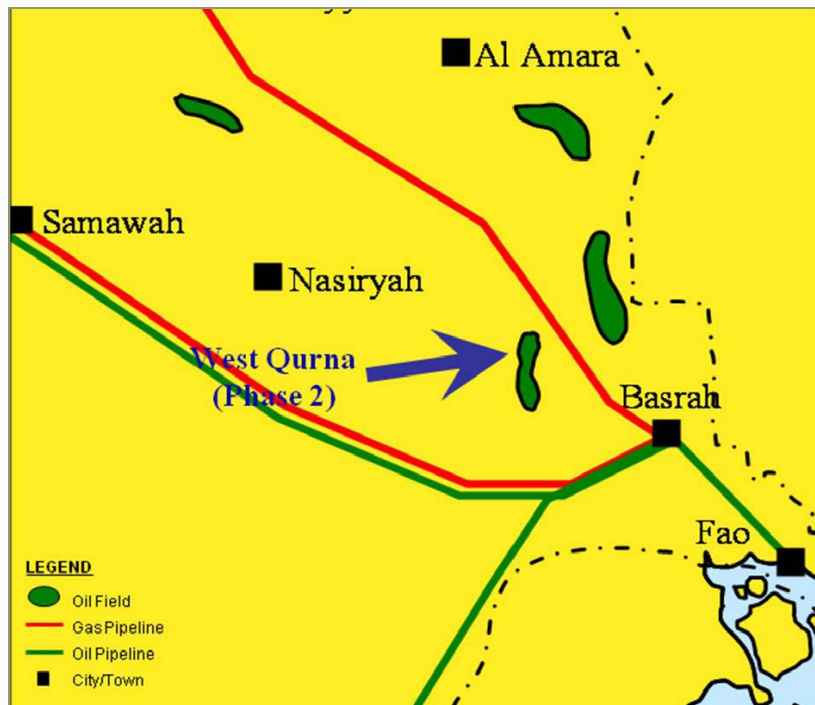
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Future inorganic growth opportunities

- Other in-house drilling companies in Russia
 - Several have publicly announced they will divest their drilling divisions
- Entry into new geographic markets when we have competitive advantage
 - Actively looking at other CIS countries
 - Initial evaluation of future Middle East possibilities, especially Iraq
- Additions in Caspian jack-up market
 - Currently three jack-up rigs active in Caspian; market looking for more rigs
 - Adding to our fleet builds on existing strong position with *ASTRA*, using existing skills/expertise
 - Caspian is a captive market – more stable pricing power

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Middle East Opportunities: Iraq



West Qurna 2

- **West Qurna 2 field** (Lukoil and Statoil) estimated recoverable reserves are 12.9 bn bbl; PPT is 1.8 mn bbl/d;
- 500 wells to be drilled during the license period of 20 years;
- Drilling is expected to start in 2011 and 1st production at the end of 2012;
- Total investments are \$ 30 billion.

- We ordered 5 Rigs with expected delivery time starting from October 2010 for this particular project;
- A professional management team with prior experience in the area and suite of equipment provide us with a strong competitive advantage.

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Onshore drilling

- The Company's current forecast for meters drilled is close to 4 million meters
- Drilling volumes for non-Lukoil customers are expected to increase in aggregate, accounting for in excess of 35% of total EDC drilling volume
- Pricing in ruble terms for the year should be up slightly from 2009 by $\approx 5\%$
- In discussions/tendering for well construction in Iraq

Offshore drilling

- The ASTRA jack-up drilling rig is currently committed for a full 12 month program in 2010
- Jack-up day rates have been robust in the Caspian market, increasing in both 2009 and 2010
- Operations on Lukoil's Yu. Korchagin field ice-resistant platform, commenced in Nov'09, and are expected to continue throughout the year

EDC business

- Total revenues are expected to exceed USD 1.75 bln
- Expect to achieve EBITDA margin of 23.9%
- Given recently ordered rigs capital expenditures will range from USD 200- USD 250 mln this year.

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Key strategic focus

Increase market share

- Continue to invest in expanding our fleet, by implementing state-of-the-art technology and enhancing service quality;
- Targeting the acquisition of more than one in-house and/or independent drilling companies.

Growth of customer base

- Continue to differentiate ourselves from our competitors in our domestic markets;
- Aggressively target new international markets in the Middle East, initially Iraq;
- Evaluate our opportunities outside on Russia and the CIS.

Expansion in offshore drilling

- 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.

Expand & improve workover capacity

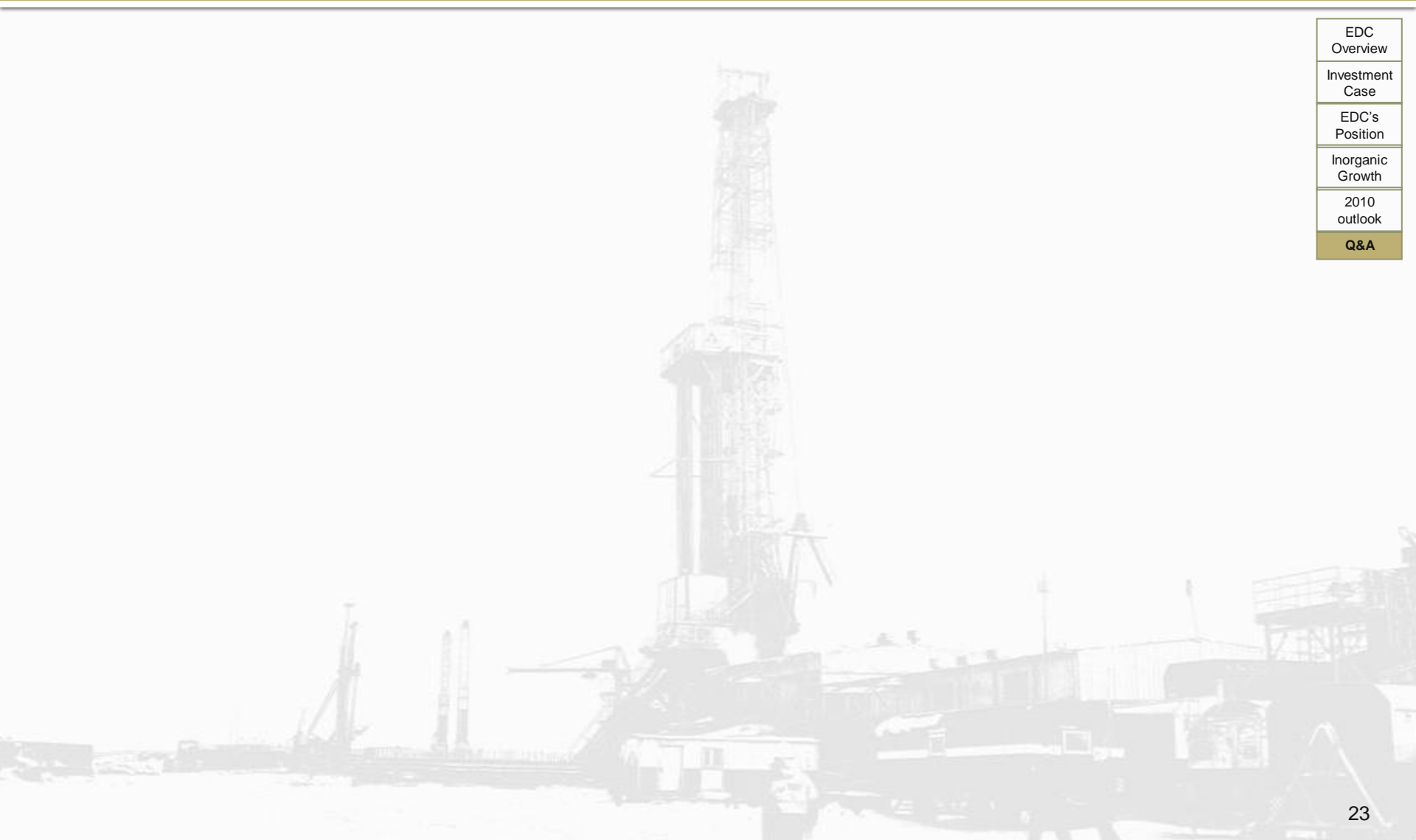
- Conclude the integration of newly acquired in West Siberia and Timan Pechora businesses and within existing workover structure;
- Target selected acquisitions of additional workover capacity.

Broaden technology platform

- Expand and improve core NTS service offerings;
- Promote strategic partnerships with global technology leaders;
- Conclude the integration of newly acquired telemetry and cementing businesses and evaluate potential acquisitions

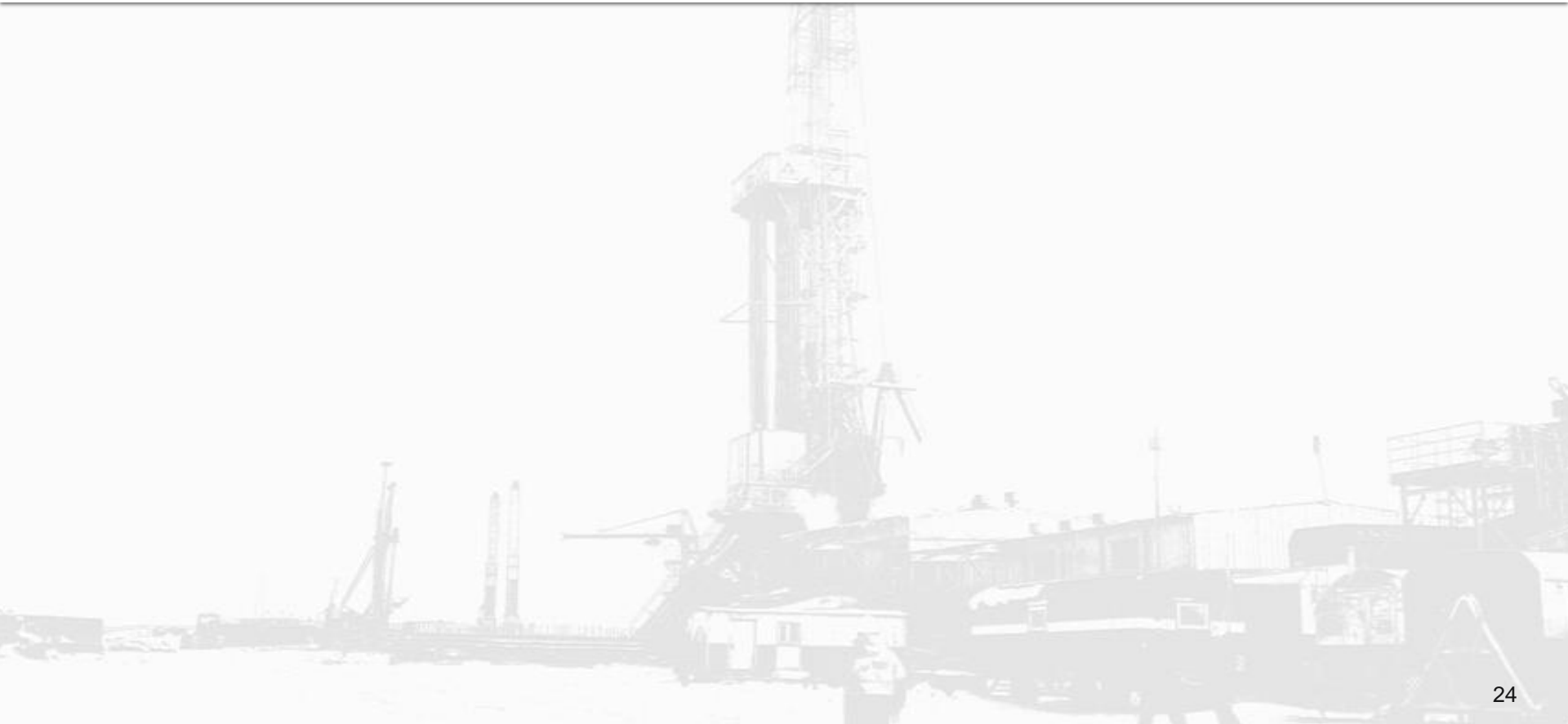
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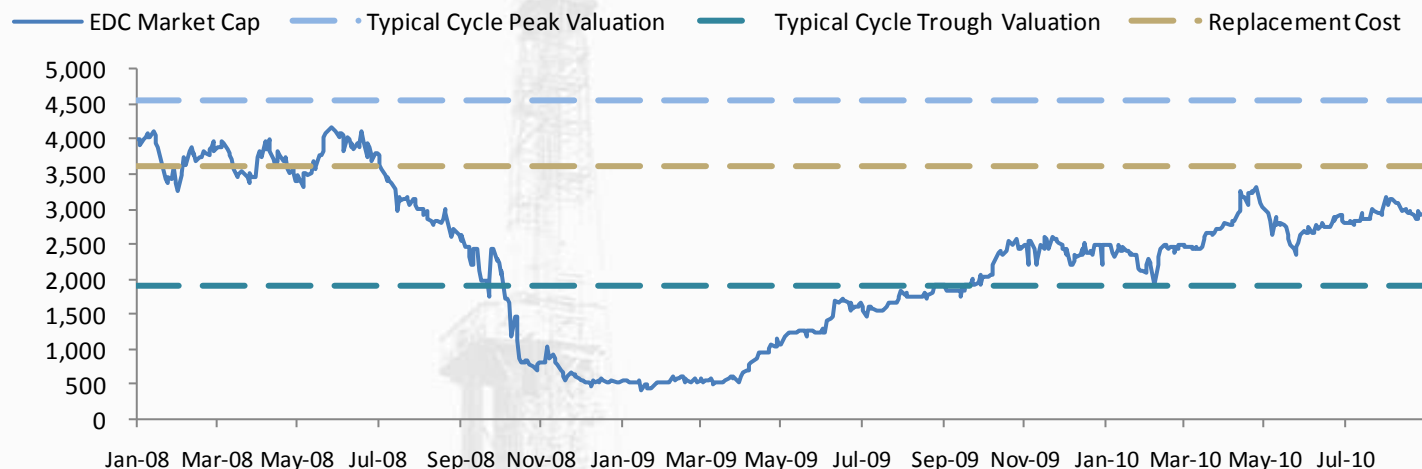


Appendix: EDC valuation reference



- In 2009 EDC shares have traded well below replacement cost of our drilling and workover rig fleet
- Historical trough drilling company valuations have been $\approx 35\%$ of replacement value for older land rigs, $\approx 75\%$ for newer land rigs, and 50% for offshore rigs¹
- Historical peak valuations have been 130% of replacement value¹

Market Cap v. Replacement Cost



Hook Load (Metric Tonnes)	EDC Rig Count by Age as of 30-Jun-10			Replacement Cost (\$000)	
	> 10 yr.	≤ 10 yr.	Total	Per Unit	Total
Up to 100	13	0	13	8,000	104,000
125	3	10	13	10,000	130,000
160-175	20	10	30	12,000	360,000
200	78	9	87	13,000	1,131,000
250	0	7	7	14,000	98,000
320-335	40	13	53	15,000	795,000
400-450	0	5	5	20,000	100,000
Totals	154	54	208		2,718,000

Other Description	Replacement Cost (\$000) as of 30-Jun-10		
	Quantity	Per Unit	Value Total
Workover Rigs	250	1,300	325,000
Jack-Up rigs	1	130,000	130,000
Net Fin. Assets	n/a	430,000	430,000
Subtotal			885,000
Grand Total			3,603,000

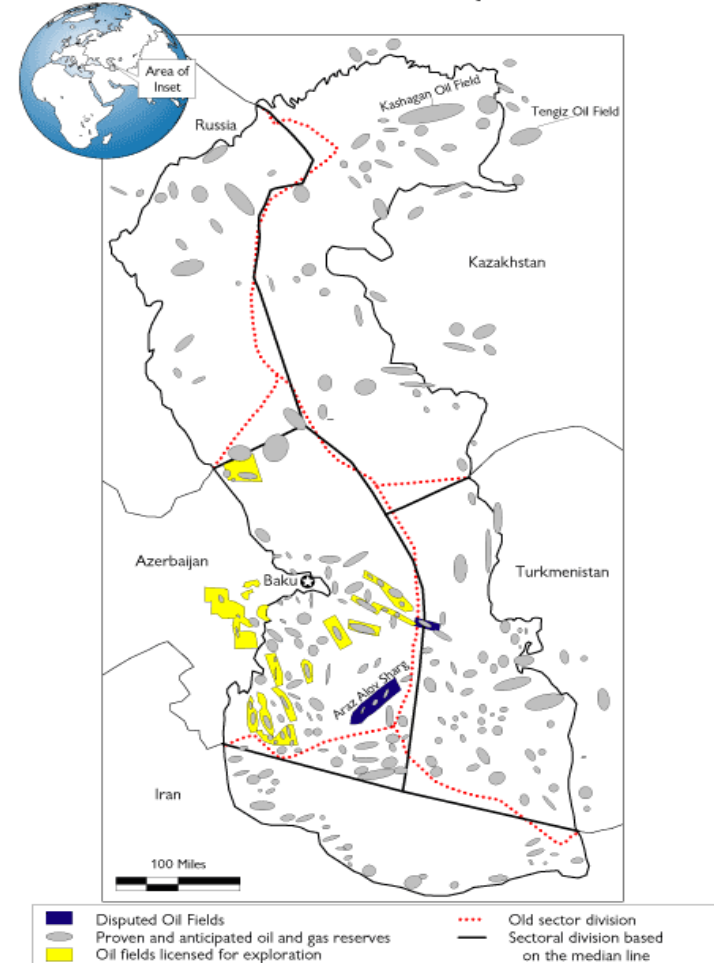
¹ Source: Tudor Pickering Holt

Appendix: Caspian Sea

Current situation

- Caspian Sea is landlocked between Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan.
- Caspian Sea's proven reserves total approximately 17-49 bln barrels of oil, with a possible additional upside of 100-300 bln barrels of not yet proven reserves*.
- By 2010, EIA expects the countries of the Caspian Sea Region to produce between 2.9 and 3.8 million bbl/d, which would exceed annual production of Venezuela*.
- Lukoil discovered 6 large oil and gas reserves in the North Caspian:
 - Yuri Korchagin field with estimated 3P reserves of 570 mln bbl;
 - Filanovskoe field with estimated 3P reserves of 1.3 bln bbl;

Oil and Gas Resources in the Caspian Sea Area



Source: "Storm in a Precious Teacup," *The Economist*, August 2, 2001 at <http://www.globopolity.org/security/wheresoil/centralkasia/2001/0802casp.htm>
<http://www.1uptravel.com/worldmaps/azerbaijan6.html>

Appendix: E&P Economics - WS vs. ES*



West Siberia

- As per VTB Bank research, an incremental barrel brings in **\$47/bbl to the budget** at \$70/bbl oil price at current tax levels
- Operating cash costs for license holders in West Siberia are **\$55/bbl**

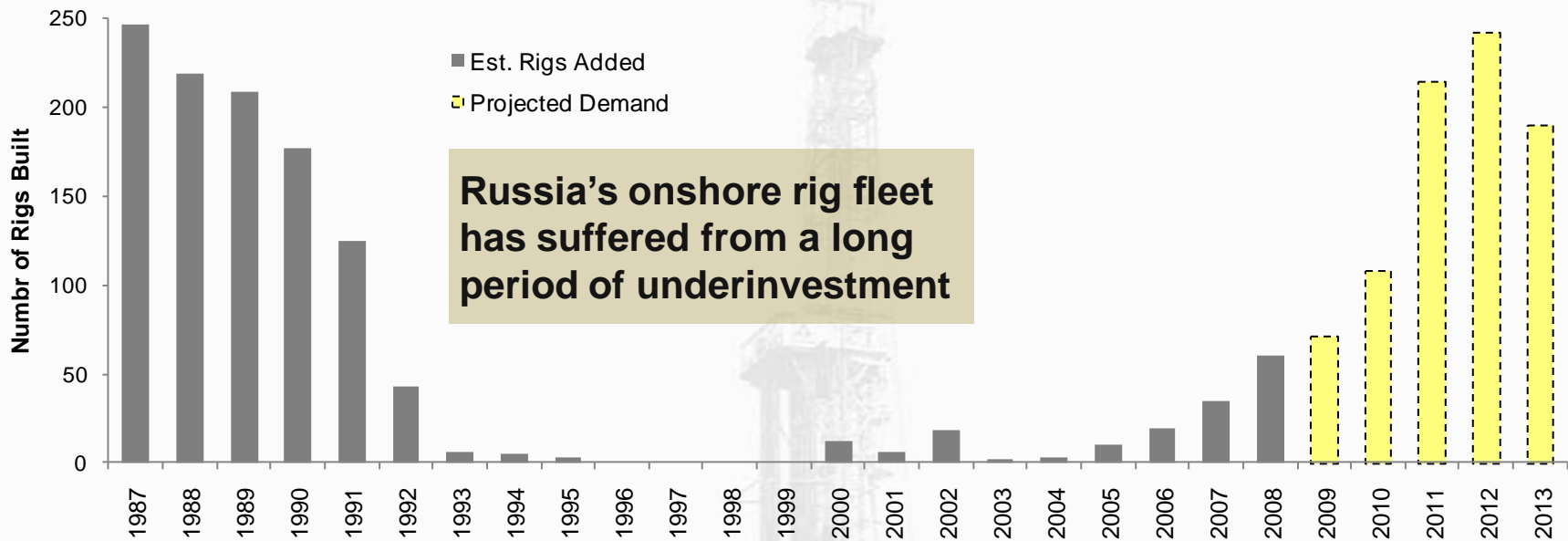
Eastern Siberia

- As per VTB Bank research, an incremental barrel brings in **\$9/bbl to the budget** at \$70/bbl oil price at current tax levels.
- Operating cash costs for license holders in East Siberia are **\$14/bbl**

Net Income/Operating cash cost to license holder at \$70/bbl oil price

<i>\$/bbl</i>	WS	ES
Revenues	\$ 70.0	\$ 70.0
Operating costs	(6.5)	(6.5)
Transportation costs	(3.5)	(7.6)
Depreciation	(4.5)	(7.5)
Mineral extraction tax	(12.1)	-
Export duties	(33.3)	-
Operating profit	\$ 10.1	\$ 48.4
Interest expense	(1.0)	(1.0)
Profit tax	(1.8)	(9.5)
Net profit to license holder	\$ 7.3	\$ 37.9
Total tax take	\$ 47.2	\$ 9.5
Operating cash cost	\$ 55.4	\$ 14.1

Appendix: Rig demand trends



- A large quantity of rigs require significant refurbishment or, in some cases, replacement
- By 2013, 190 rigs per year (ideally) will need to be input into the system (refurbishments or new-builds)
- Domestic suppliers will not likely keep up with demand

Appendix: “Yermak” 450 tonne rig

In 2007 EDC commenced design and fabrication of purpose built land rigs for the Russian market

- Primary differences between operations in Russia versus most operations in other parts of the world are:
 - Extremely cold winter conditions combined with warm summer temperatures [range: -60°C to +40° C]
 - 95% of dev. wells are drilled directionally from pad clusters; longer reach wells/more complex clusters are being contemplated
 - Logistics to remote locations limit load sizes to approx. 3m width, 3m height ,12m length and 25 tonnes
- First rig designed to above constraints is the 450 Tonne “Yermak” rig, recently completed in Kaliningrad. Unique features of the rig include :
 - Quadra Moving System, enabling the rig to walk in any direction and turn in any direction
 - Separate fixed mud block incorporating mud pumps, tanks and processing equipment
 - Flexible interconnecting umbilical system that conducts drilling fluids, steam & electrical energy and control systems cabling
 - A flexible 320 Tonne cluster rig is currently being designed



BU 6500/450 EKBM “YERMAK”

Appendix: Income statement (USD'000)



	2007 <u>Audited</u>	2008 <u>Audited</u>	2009 <u>Audited</u>	1H 2009 <u>Unaudited</u>	1H 2010 <u>Unaudited</u>
<i>Av. Exchange Rate RUB/USD</i>	25.6	24.9	31.7	33.1	30.1
Total Revenue	\$ 1,492,189	\$ 2,101,779	\$ 1,382,203	\$ 673,188	\$ 862,013
Costs and Other Deductions					
Operating Expenses	\$ 1,031,480	\$ 1,453,718	\$ 912,050	\$ 449,022	\$ 555,368
Selling, General and Admin. Expenses	\$ 90,021	\$ 122,011	\$ 94,861	\$ 43,944	\$ 54,659
Taxes Other than Income Taxes	\$ 56,574	\$ 72,571	\$ 55,061	\$ 32,376	\$ 45,698
Depreciation	\$ 58,705	\$ 101,777	\$ 106,390	\$ 49,791	\$ 67,127
(Gain)/Loss on Disposal of PP&E	\$ 610	\$ 4,722	\$ (382)	\$ (688)	\$ (5,790)
Income/(Loss) from Operations	\$ 254,799	\$ 346,980	\$ 214,223	\$ 98,743	\$ 144,951
Interest Expense	\$ 29,880	\$ 26,553	\$ 13,524	\$ 7,530	\$ 7,629
Interest and Dividend Income	\$ (4,546)	\$ (9,553)	\$ (10,631)	\$ (3,655)	\$ (6,531)
Currency Transaction Loss/(profit)	\$ (349)	\$ 33,017	\$ 4,414	\$ (5,328)	\$ 1,870
Net gain on acquisition of business	\$ -	\$ -	\$ (2,849)	\$ -	\$ -
Other Expenses	\$ 363	\$ 759	\$ 418	\$ 364	\$ (55)
Income/(Loss) Before Taxes	\$ 229,451	\$ 296,204	\$ 209,347	\$ 99,832	\$ 142,038
Income Tax Expense	\$ 60,907	\$ 75,271	\$ 43,857	\$ 21,440	\$ 37,228
Net Income/(Loss)	\$ 168,544	\$ 220,933	\$ 165,490	\$ 78,392	\$ 104,810
Pat Margin	11.3%	10.5%	12.0%	11.6%	12.2%
EBITDA	\$ 313,751	\$ 452,720	\$ 319,813	\$ 147,482	\$ 206,343
EBITDA Margin, %	21.0%	21.5%	23.1%	21.9%	23.9%
EPS	\$ 1.15	\$ 1.61	\$ 1.24	\$ 0.57	\$ 0.75

Appendix: Balance sheet (USD'000)



	2006 Audited	2007 Audited	2008 Audited	2009 Audited	30-Jun-10 Unaudited
<i>Exchange Rate RUB/USD</i>	26.3	24.5	29.4	30.2	31.2
ASSETS					
Current Assets					
Cash	\$ 29,296	\$ 343,089	\$ 279,430	\$ 433,724	\$ 383,170
Trade Accounts Receivable, net	\$ 151,371	\$ 230,888	\$ 230,147	\$ 191,054	\$ 225,885
Inventory	\$ 141,302	\$ 132,822	\$ 183,448	\$ 116,801	\$ 140,062
Other Current Assets	\$ 40,738	\$ 62,792	\$ 61,359	\$ 53,270	\$ 48,981
Total Current Assets	\$ 362,707	\$ 769,591	\$ 754,384	\$ 794,849	\$ 798,098
Property, plant and equipment, net	\$ 237,631	\$ 572,132	\$ 608,684	\$ 684,188	\$ 656,331
Other non-current assets	\$ 28,720	\$ 18,080	\$ 82,467	\$ 44,371	\$ 117,039
Total Assets	\$ 629,058	\$ 1,359,803	\$ 1,445,535	\$ 1,523,408	\$ 1,571,468
LIABILITIES AND SHAREHOLDERS EQUITY					
Current Liabilities					
Trade Accounts Payable, Net	\$ 140,979	\$ 210,337	\$ 236,343	\$ 228,499	\$ 185,513
Notes Payable - Current LTD & Other	\$ 77,557	\$ 118,911	\$ 91,721	\$ 31,796	\$ 37,432
Other Current Liabilities	\$ 36,565	\$ 35,783	\$ 53,655	\$ 90,702	\$ 82,655
Total Current Liabilities	\$ 255,101	\$ 365,031	\$ 381,719	\$ 350,997	\$ 305,600
Notes Payable - Long Term	\$ 200,196	\$ 165,494	\$ 171,138	\$ 150,379	\$ 126,470
Long Term - Other	\$ 11,772	\$ 7,382	\$ 12,135	\$ 19,874	\$ 22,709
Total Liabilities	\$ 467,069	\$ 537,907	\$ 564,992	\$ 521,250	\$ 454,779
SHAREHOLDERS' EQUITY					
Paid-in-Capital & APIC	\$ 35,510	\$ 515,649	\$ 481,132	\$ 471,300	\$ 690,989
Retained Earnings/(loss)	\$ 119,311	\$ 277,855	\$ 464,461	\$ 596,340	\$ 520,639
Accumulated other comprehensive loss	\$ 7,168	\$ 28,392	\$ (65,050)	\$ (65,482)	\$ (94,939)
Total Shareholders' Equity	\$ 161,989	\$ 821,896	\$ 880,543	\$ 1,002,158	\$ 1,116,689
Total Liabilities and Shareholders's Equity	\$ 629,058	\$ 1,359,803	\$ 1,445,535	\$ 1,523,408	\$ 1,571,468

Appendix: Cash flow statement (USD'000)



	2007 Audited	2008 Audited	2009 Audited	1H 2009 Unaudited	1H 2010 Unaudited
Net Income	\$ 168,544	\$ 220,933	\$ 165,490	\$ 78,392	\$ 104,810
Non-cash Adjustments (Depreciation)	\$ 58,705	\$ 101,777	\$ 106,390	\$ 49,791	\$ 67,127
Changes in Working Capital excl. Cash	\$ (53,929)	\$ (12,859)	\$ 137,627	\$ 40,748	\$ (62,338)
Cash from Operations	\$ 173,320	\$ 309,851	\$ 409,507	\$ 168,931	\$ 109,599
Capex	\$ (319,740)	\$ (327,015)	\$ (106,815)	\$ (66,156)	\$ (119,312)
Acquisition of subsidiary, net of cash acquired	\$ -	\$ -	\$ (23,374)	\$ -	\$ (23,781)
Other Investing Cash Flow	\$ 13,589	\$ 3,125	\$ 4,349	\$ 1,873	\$ 8,894
Net Change in Loans	\$ (20,386)	\$ 11,872	\$ (84,500)	\$ (62,447)	\$ (23,476)
Dividends Accrued or Paid	\$ (10,000)	\$ -	\$ (34,327)	\$ (34,327)	\$ (212,786)
Sale/(purchase) of Treasury/common shares	\$ 480,139	\$ (40,100)	\$ (18,621)	\$ (6,636)	\$ 217,589
Refund of offering costs from JP Morgan	\$ -	\$ 5,583	\$ -	\$ -	\$ -
Effect of exchange rate fluctuations	\$ (3,129)	\$ (26,975)	\$ 8,075	\$ (2,163)	\$ (7,281)
Net increase/(decrease) in cash	\$ 313,793	\$ (63,659)	\$ 154,294	\$ (925)	\$ (50,554)