



# Eurasia Drilling Company Ltd.

The Russia Forum by Troika Dialog  
Moscow

February 2011

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# Agenda

- Overview: EDC at a glance
- Investment case
- Performance and positioning
- Growth opportunities
- Summary
- Q&A

<b>EDC Overview</b>
Investment Case
EDC's Position
Growth Potential
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# EDC at a glance



<b>EDC Overview</b>
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# No.1

*Largest independent drilling company in Russia*

# 471

*Rig fleet including 211 onshore, 1 offshore and 259 workover rigs*

# 24%

*Market share onshore Russia as measured meters drilled (2010)*

# 4,102

*Thousand meters drilled onshore during 2010 (+9% vs. 2009)*

	<i>1<sup>st</sup> Half 2010</i>	<i>Growth (vs. 1H09)</i>
<b>Revenue</b>	<b>US \$862,013k</b>	<b>+ 28%</b>
<b>Net Income</b>	<b>US \$104,810k</b>	<b>+ 34%</b>
<b>EBITDA</b>	<b>US \$206,343k</b>	<b>+ 40%</b>
<b>EBITDA margin</b>	<b>23.9%</b>	<b>+ 2 ppts</b>
<b>Meters drilled</b>	<b>1,974k meters</b>	<b>+ 2%</b>

## Key Customers



# EDC at a glance



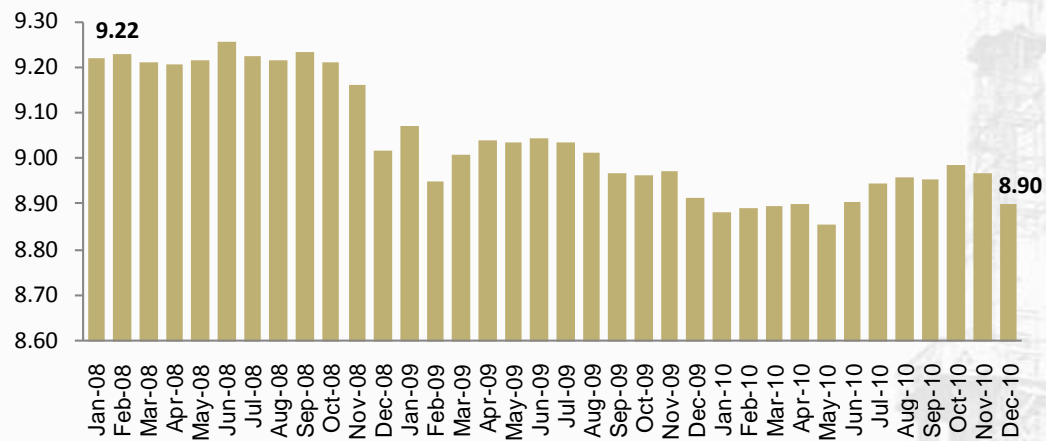
- ★ Head Office
- Regional/Branch Office
- Support Base
- ▲ Rig Fabrication
- ⚙️ Operational Areas



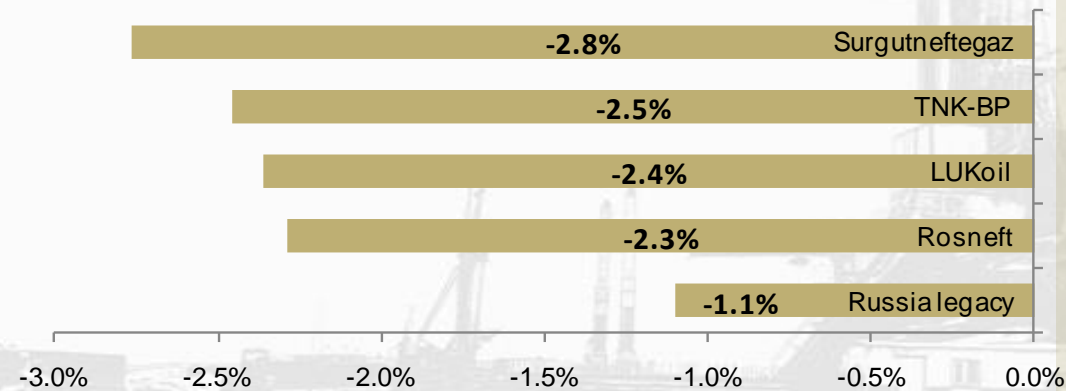
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# Legacy output is deteriorating...

Russia Brownfield Oil Production, mln bpd



Y-o-Y Decline in Brownfield Production in 2010



Source: Troika Dialog

- Legacy output (Brownfield production) in Russia has been deteriorating since 3Q08;
- The industry has lost about **320 kbpd** in Brownfield production in two and a half years and was **8.9 mln bpd** for 2010;
- The 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 production, Gazprom and Novatek condensate volumes, TNK-BP Uvat & LUKoil Naryanmarneftegaz oil production and the three East Siberian oil fields currently producing significant volumes.

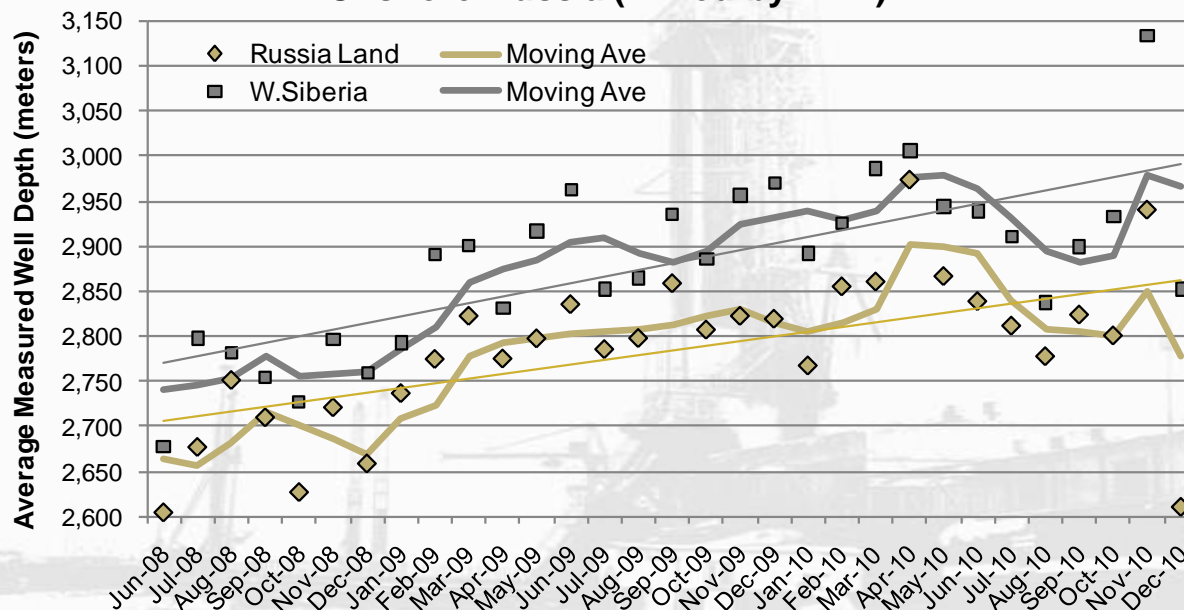
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# ...while drilling is more complex

- Customers demanding hi-spec rigs
  - Depths/complexity increasing
  - Assets are becoming scarce
  - Logistics more challenging
- Fleets must be modern
  - Fleets must be heavier
  - Fleets must be more efficient
  - Fleets must be more mobile

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

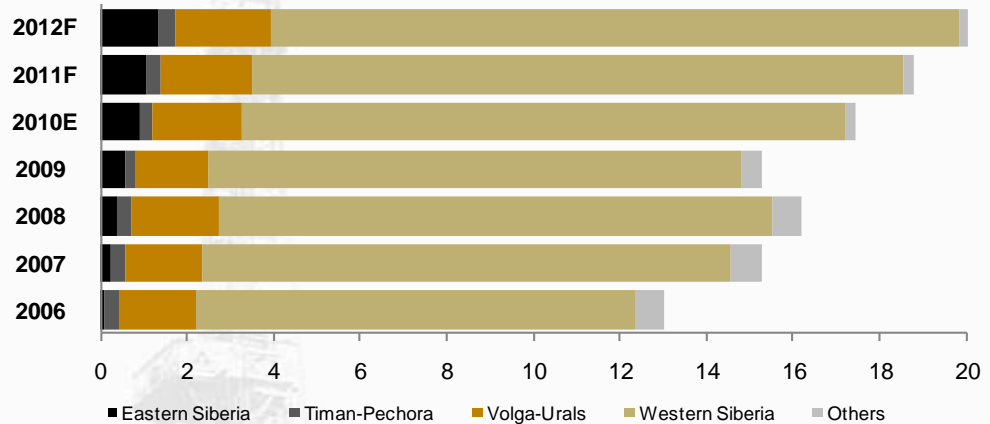


Source: Company data

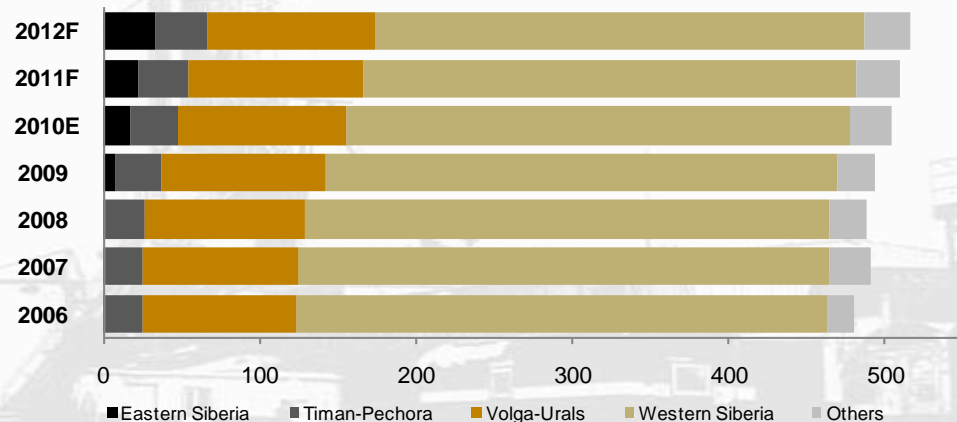
# Russian market

- Total meters drilled onshore Russia in 2010 were **18%** above 2009 levels.
- As per REnergyCo, demand for drilling is expected to grow approx. **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 penetration rates are lower

### Russia's Onshore Market by Meters Drilled (mln)



### Russia's Crude Production (mln tons per year)

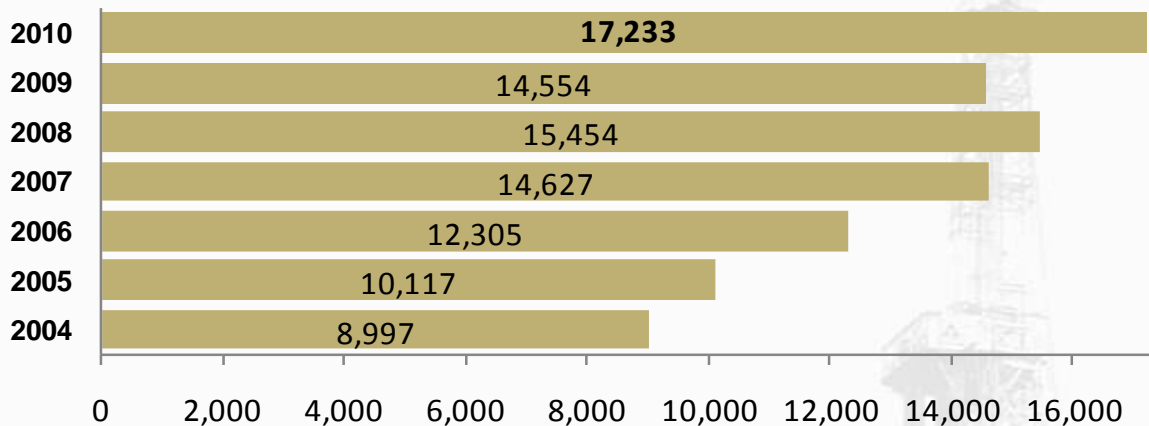


Source: REnergyCo as of Aug 2010.

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# Market share

## Russia Onshore Meters Drilled (th. meters)

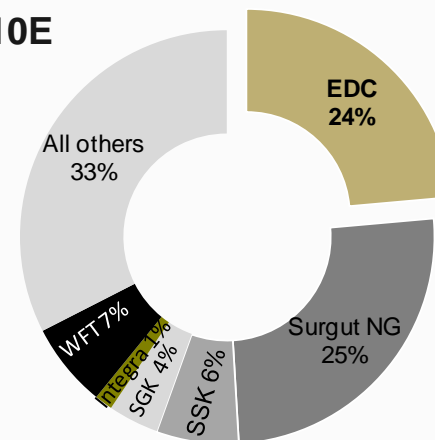


Source: CDU TEK

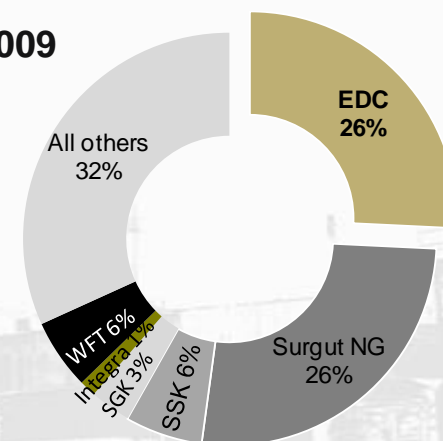
- Drilling activity was strong in 2010, **18%** above 2009. Mostly all E&P companies in Russia increased their spending on drilling in 2010, except for our major client.
- Production drilling volumes are up **17%** y-o-y;
- Exploration drilling volumes are up **53%** y-o-y

## Market Share

2010E



2009



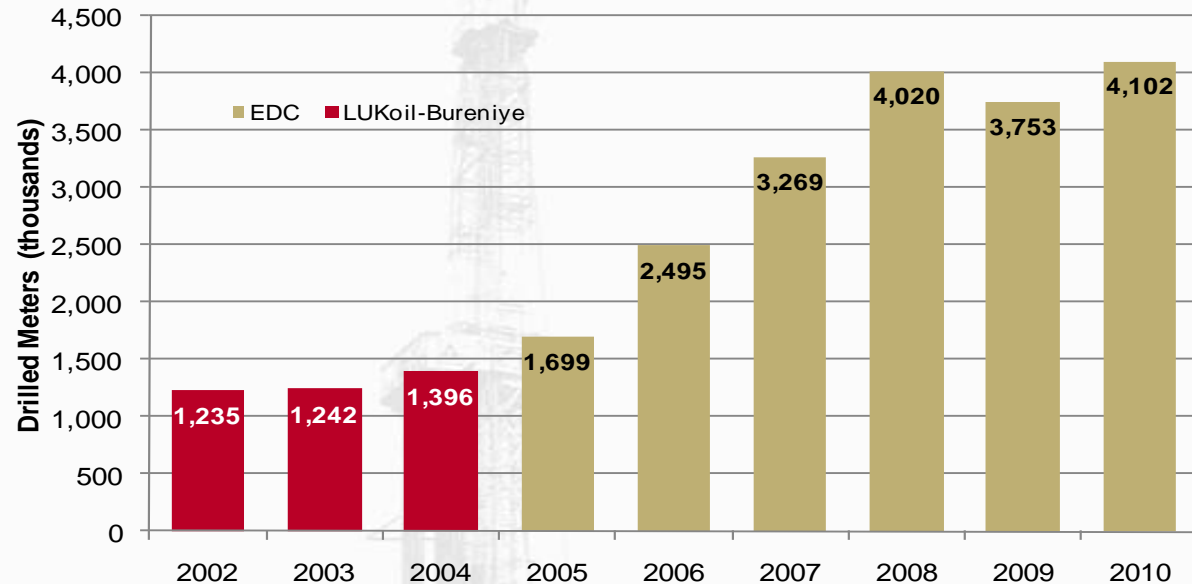
Sources: CDU TEK and Company estimates, based on Russian Onshore meters drilled

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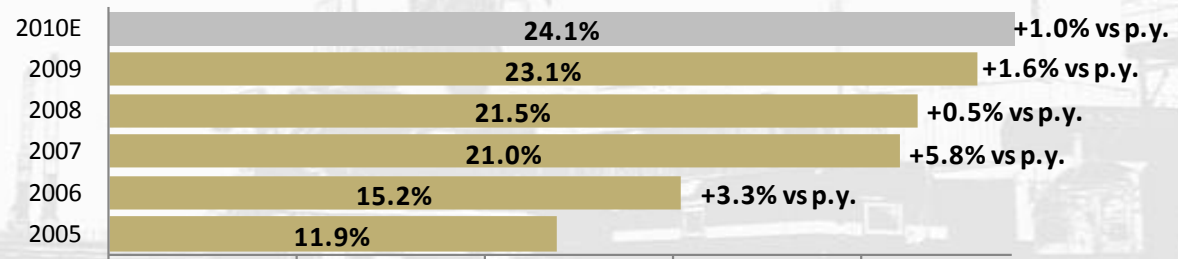
# History of growth

- **CAGR of 19%** in drilling volumes during EDC's history as an independent driller
- In May 2010 EDC drilled a record 398,000 Meters
- Volume growth was achieved organically
- Since inception EBITDA margins have improved by 12 percentage points

## EDC Drilling Volume Performance (th. meters)



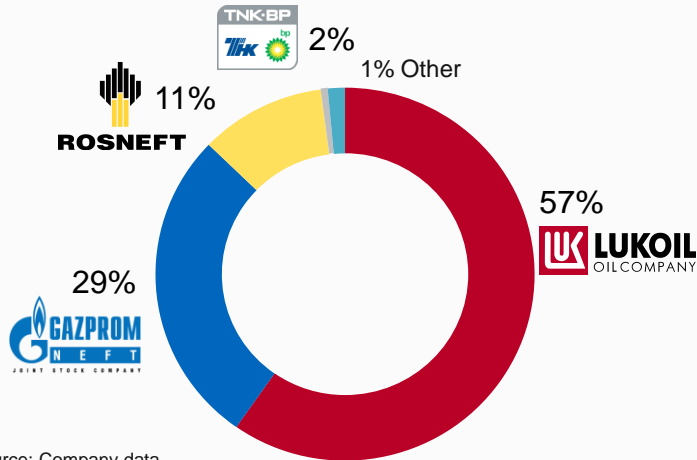
## EBITDA Margin Growth



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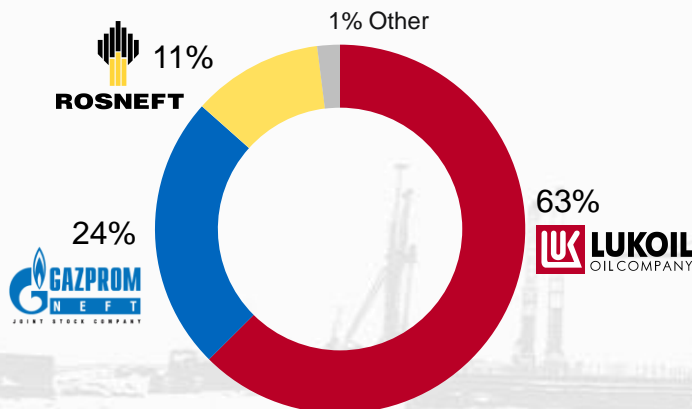
# Customer diversification

2010



Source: Company data

2009



Source: Company data

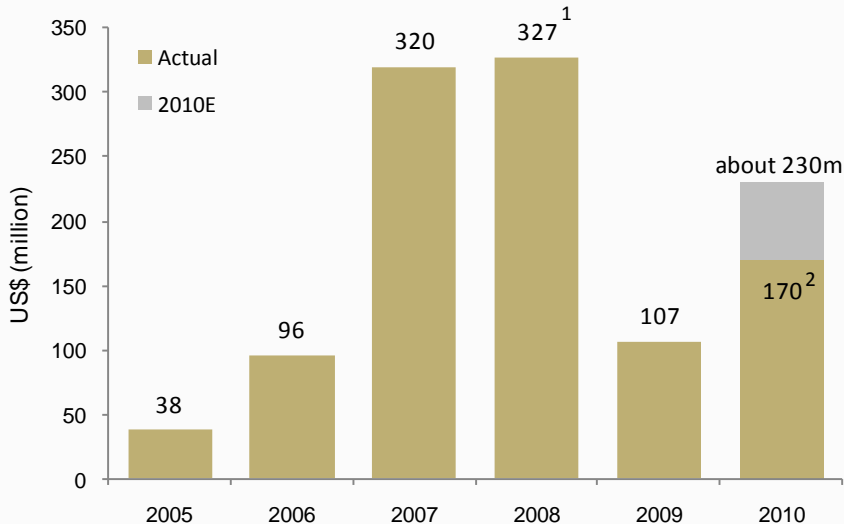
## Contracts Developments

- In 2007 our major client accounted for 77% of total meters drilled
- Continuous efforts on diversifying our customer base have resulted in an increase in share of **non-Lukoil customers to 43%** in total meters drilled
- We drilled **1,762 thousand meters** for non-Lukoil customers during 2010; 28% above 2009
- 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, PechoraNeft and Rusvietpetro
- Recent Schlumberger acquisition will further increase the share of non-Lukoil customers in our portfolio from 2011

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# Rig Fleet and CAPEX

## Expected CAPEX Expenditure



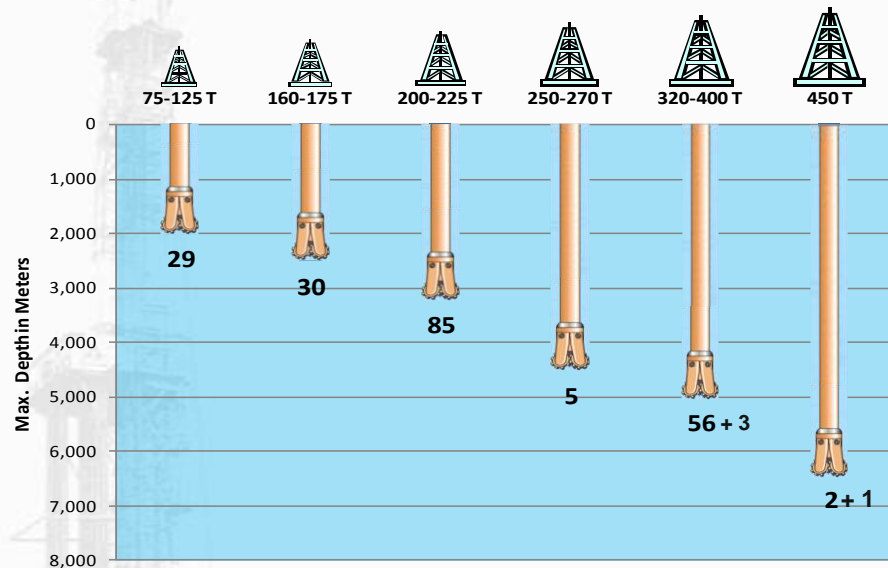
Note: Purchases of property, plant and equipment as set forth in EDC's audited consolidated statements of cash flows for the years ended 31 December 2005, 2006, 2007, 2008 & 2009

<sup>1</sup> Includes cash committed in 2008 for equipment delivered in 2009

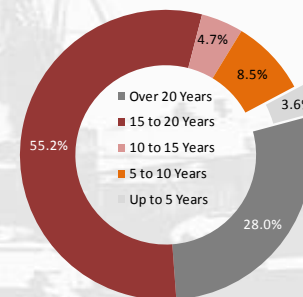
<sup>2</sup> 9m10 (unaudited)

- For 2010 delivery we ordered **5 new rigs** with completion times commencing late-2010 for prospective onshore operations outside of the CIS, plus **2 rigs** (delivered 3Q10) for our operations in Russia
- We are currently tendering for 24 additional rigs for 2011-2012 delivery

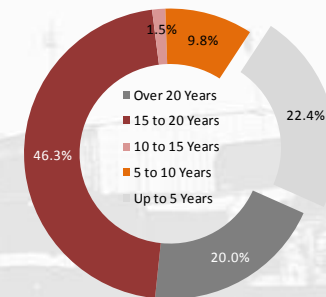
## EDC's Rig Fleet



### Russian Fleet Age



### EDC Fleet Age



Source : Douglas Westwood, Company estimates

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# Growth opportunities

- Acquisition of Russian land drilling/workover businesses
  - Asset swap between EDC & Schlumberger announced in Oct-10
  - EDC active participant in Slavneft and Gazpromneft divestitures of their in-house drilling and well service divisions
- Entry & expansion into other geographic markets
  - Actively looking at other CIS countries
  - Pursuing Middle East possibilities; initially Iraq
- Asset additions for the Caspian jack-up market
  - Currently three jack-up rigs active in the Caspian; demand by 2013 expected to be 6 to 7 rigs
  - Lamprell contracted by EDC to build Super 116E J/U for 2013 delivery
  - EDC recently announced negotiation with Transocean to acquire *TRIDENT XX*, currently on long-term contract in the Caspian
  - Additional opportunities to grow EDC's J/U fleet are being explored

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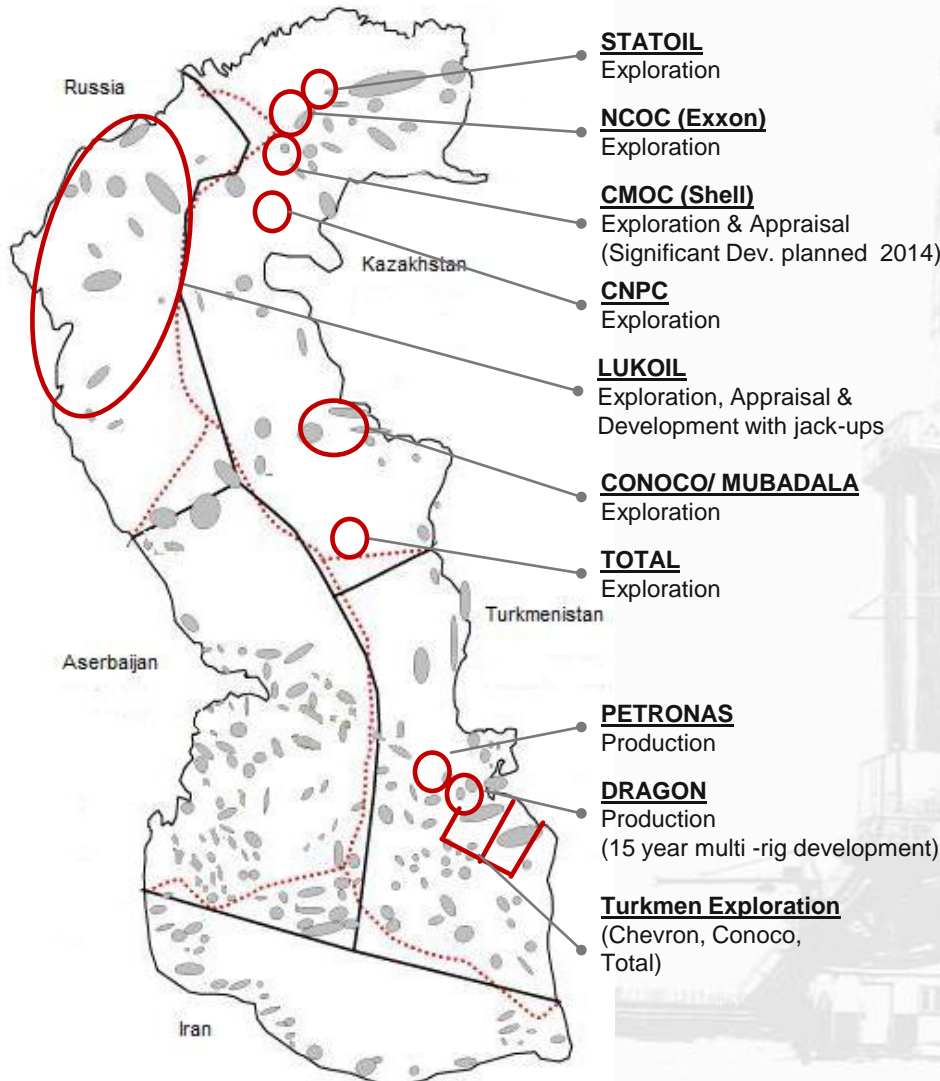
# Growth opportunities: Strategic Alliance with SLB



- Transaction with Schlumberger announced late 2010:
  - EDC transfers NTS assets (cementing, DD/telemetry and drilling fluids) and crews (24 cementing, 57 DD/telemetry & 50 drilling fluids) to SLB
  - SLB transfers Drilling (17 + 2 rigs, 12 crews), Workover (34 rigs, 25 crews) and Sidetracking (23 rigs, 20 crews) to EDC
  - Strategic Alliance formed with SLB as preferred supplier of drilling services to EDC for 5 years
- Total value of transaction approx. US \$260 million
  - Assets transfer, plus cash consideration from EDC to SLB
  - Anticipated closing late first quarter 2011
- Projected 2011 EBITDA approx. US \$75-80 million
  - Drilling output c. 570k meters (2010), approx. 3.5% market share
  - 20 Sidetracking crews plus existing EDC capability (currently 7 crews) gives us the largest sidetracking offering in Russia
  - Primary clients include Rosneft (Drilling & S/T), TNK-BP (W/O & S/T) Gazpromneft (S/T) and Lukoil (S/T).

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# Growth opportunities: Caspian Sea jack-up market



## Demand for jack-ups growing in all Caspian sectors served by EDC:

- In the Russian sector, Lukoil has made a number of discoveries and has several appraisals/prospects to drill
- Numerous blocks are in exploration phase in Kazakh waters, and some developments are being planned
- Offshore Turkmenistan is currently in development phase using jack-ups off small platforms. Additional exploration blocks are being looked at by numerous potential operators

## EDC actions to address demand:

- Nov-10 contract with Lamprell Plc to build a new jack up, expected to be completed early 2013
- Jan-11 announced negotiations to acquire *TRIDENT XX* from Transocean
- Looking at other options for additional jack-up and shallow-water rigs

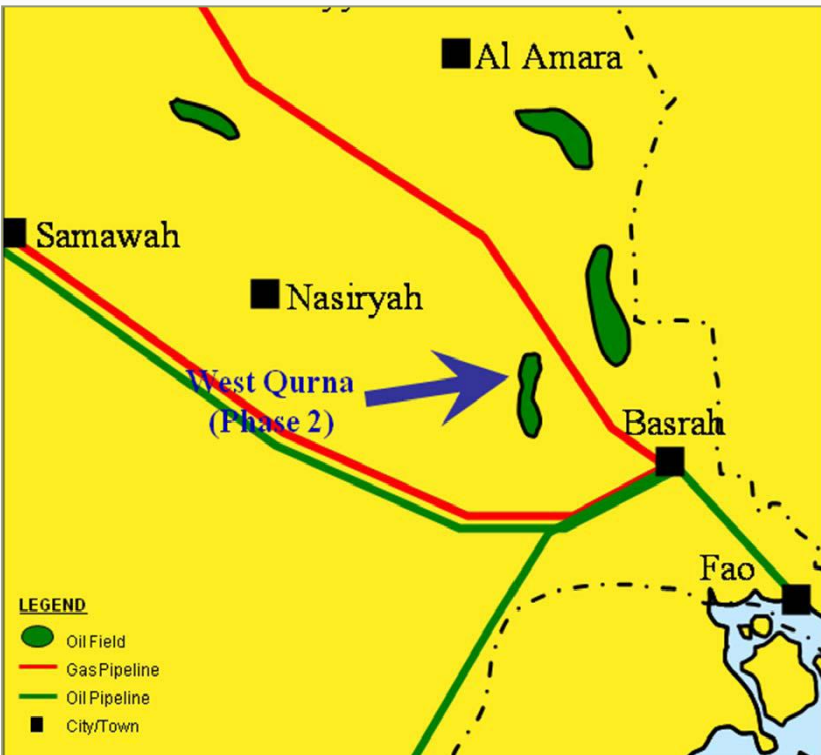
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# Growth opportunities: Middle East (Iraq)

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## Iraq opportunities

- Iraq, holder of the world's third-largest oil reserves, aims to increase crude production to 6 mln barrels a day by 2015
- Licenses awarded by Iraqi government include (but not limited to):
  - Shell & Petronas (Majnoon)
  - BP & CNPC (Rumaila)
  - Eni SpA-led group (Zubair)
  - Exxon and Shell (West Qurna 1)
  - Gazprom Neft, Kogas, Petronas & TPAO (Badra)
  - Total and Japanese firms (Azadegan)



- **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 1<sup>st</sup> production at the end of 2012
- Total investments are expected to be approx. US \$30 billion

# 2011 Outlook



## Update for 2010

- 2010 another record year for EDC with 4,102 th. meters drilled onshore; +9.3% y-o-y
- Total revenue for 2010 expected at approx. US\$ 1.79 billion, EBITDA margin of 24.1%
- 2010 results will be released in the second half of April 2011

## Onshore Drilling and Workover

- EDC's current onshore drilling volume forecast is approx. 4.8 million meters for 2011 including SGK contribution
- The Company's client mix in 2011 is expected to diversify further (growth with TNK-BP and Rosneft)
- LUKOIL's share in EDC's total drilling volumes is projected of approx. 54%
- Workover and sidetracking activity are expected to be strong in 2011 (SLB assets & further integration of the w/o assets acquired from LUKOIL in early 2010)
- Pricing in ruble terms for the year should be up slightly from 2010
- By the end of 2011 EDC will be the largest provider of drilling, workover and sidetracking services in Russia

## Offshore Drilling

- The ASTRA jack-up rig is currently committed for a full 12 month program in 2011
- Operations on Lukoil's Yu. Korchagin field ice-resistant platform are expected to continue throughout the year
- Construction of new Super 116E jack-up drilling rig is proceeding as planned and the rig is expected to begin operations in early 2013
- The acquisition from Transocean, if agreed, is anticipated to close within the first quarter. With the addition of the TRIDENT XX to our fleet, by the end of the year the Company will have built a significant presence in the Caspian Sea

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# Key strategic focus

## Increase market share

- Continue to invest in expanding our fleet, implementing state-of-the-art technology and enhancing service quality;
- Targeting acquisition of one or more in-house drilling companies;
- Integrate recently acquired drilling assets from Schlumberger.

## 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 of 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 businesses in West Siberia and Timan Pechora within existing workover structure;
- Target selected acquisitions of additional workover capacity.

## Broaden technology platform

- Expand and improve core drilling service offerings in advance of divestiture;
- Leverage strategic partnership with global technology leader Schlumberger to win additional work.

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# IR calendar and contacts



## Forward calendar

- **2011 Credit Suisse Energy Summit** February 7-11, 2011 (Vail, CO)
- **UBS Russia & CIS 1-1 Conference** February 28- March 1 (NY)
- **10<sup>th</sup> Annual Oil & Gas 1-1 Investor Forum** April 4-6, 2011 (London)  
(Bank of America Merrill Lynch)
- **2010 Results** April

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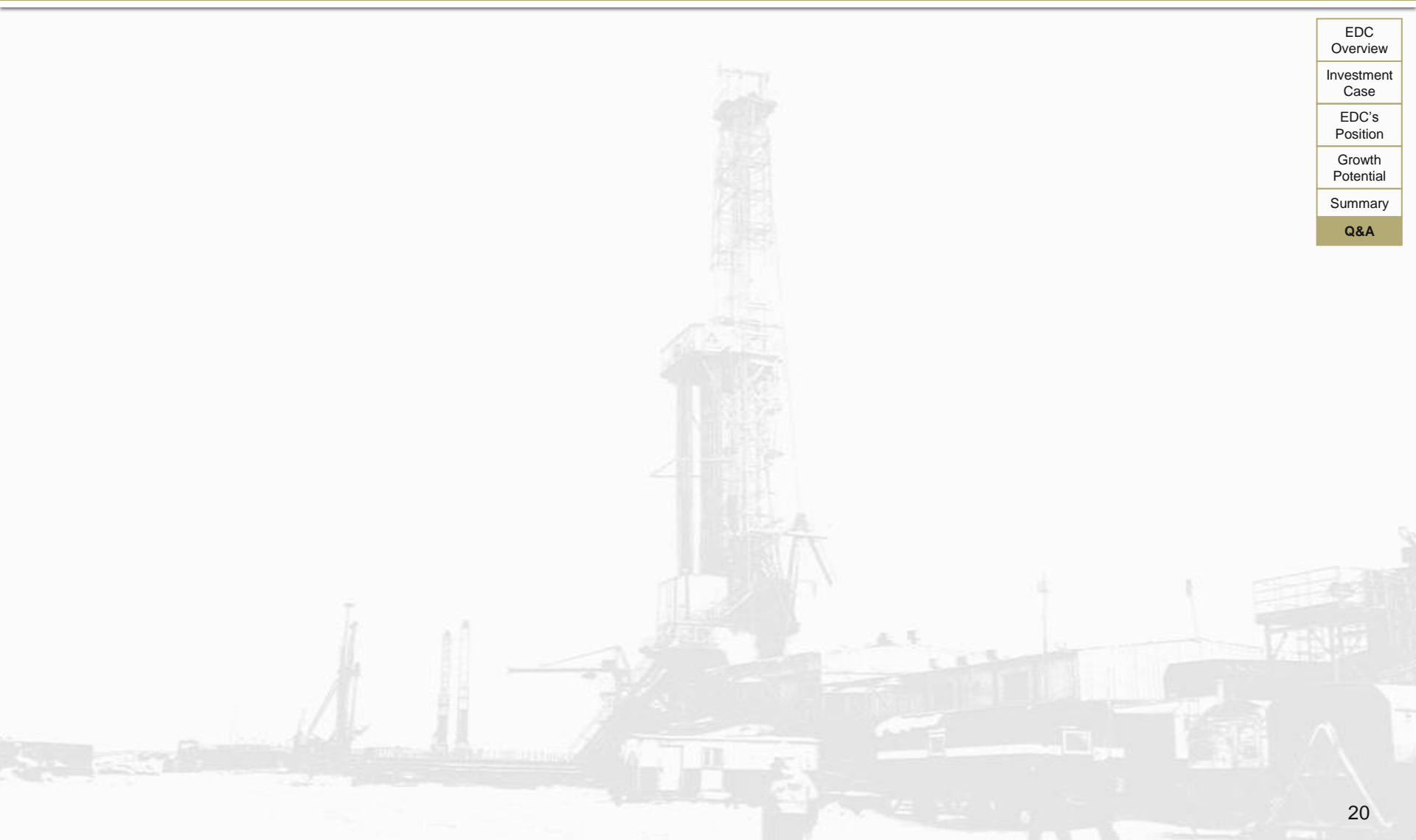
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Manager, Investor Relations

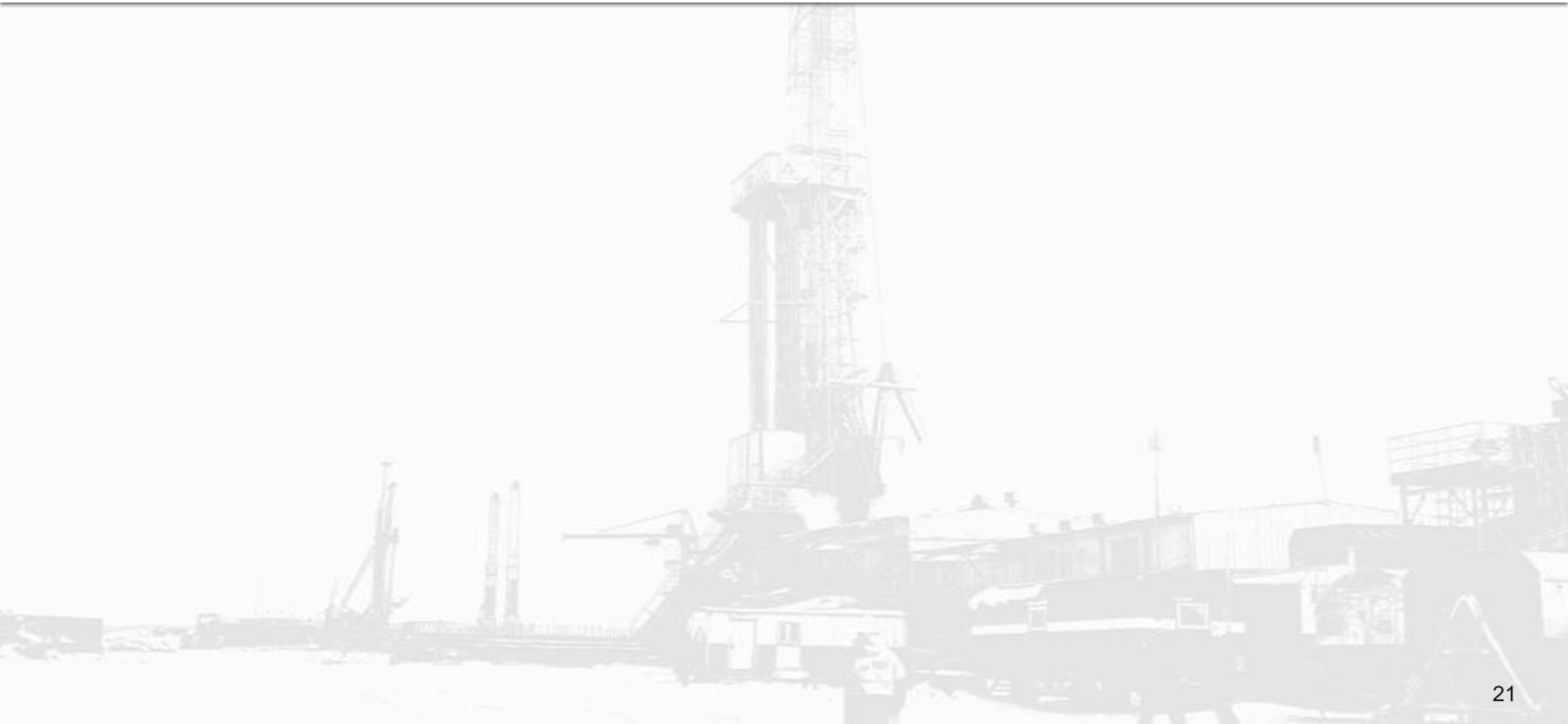
Email: Yevgeniya.Bitsenko@eurasiadrilling.com

# Q&A



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# Appendix: Summary financials



(US\$'000)	2007 Audited	2008 Audited	2009 Audited	1H 2009 Unaudited	1H 2010 Unaudited
<b>Revenue</b>	\$ 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%
<b>EBITDA</b>	\$ 313,751	\$ 452,720	\$ 319,813	\$ 147,482	\$ 206,343
<i>% margin</i>	21.0%	21.4%	23.1%	21.9%	23.9%
<b>Net income</b>	\$ 168,544	\$ 220,933	\$ 165,490	\$ 78,392	\$ 104,810
<i>% margin</i>	11.3%	10.5%	12.0%	11.6%	12.2%
<b>Operating cash flow</b>	\$ 173,320	\$ 309,851	\$ 409,507	\$ 168,931	\$ 109,599
<b>Free Cash Flow</b>	\$ (146,420)	\$ (17,164)	\$ 302,692	\$ 102,775	\$ (9,713)
<b>Capital Expenditures</b>	\$ 319,740	\$ 327,015	\$ 106,815	\$ 66,156	\$ 119,312
<b>Net cash/ (net debt position)</b>	\$ 58,684	\$ 16,571	\$ 251,549	\$ 92,930	\$ 219,268
<b>Dividend per share (US\$)</b>	n.a.	\$ 0.25	\$ 0.25	-	\$ 1.22
<b>EPS (US\$)</b>	n.a.	\$ 1.51	\$ 1.22	\$ 0.57	\$ 0.75

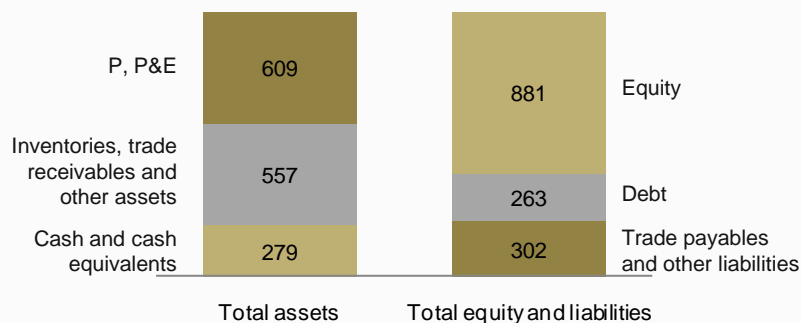
# Appendix: Income statement (US\$'000)



	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/US\$</i>	25.6	24.9	31.7	33.1	30.1
<b>Total Revenue</b>	<b>\$ 1,492,189</b>	<b>\$ 2,101,779</b>	<b>\$ 1,382,203</b>	<b>\$ 673,188</b>	<b>\$ 862,013</b>
<b>Costs and Other Deductions</b>					
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)
<b>Income/(Loss) from Operations</b>	<b>\$ 254,799</b>	<b>\$ 346,980</b>	<b>\$ 214,223</b>	<b>\$ 98,743</b>	<b>\$ 144,951</b>
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)
<b>Income/(Loss) Before Taxes</b>	<b>\$ 229,451</b>	<b>\$ 296,204</b>	<b>\$ 209,347</b>	<b>\$ 99,832</b>	<b>\$ 142,038</b>
Income Tax Expense	60,907	75,271	43,857	21,440	37,228
<b>Net Income/(Loss)</b>	<b>\$ 168,544</b>	<b>\$ 220,933</b>	<b>\$ 165,490</b>	<b>\$ 78,392</b>	<b>\$ 104,810</b>
Pat Margin	11.3%	10.5%	12.0%	11.6%	12.2%
<b>EBITDA</b>	<b>\$ 313,751</b>	<b>\$ 452,720</b>	<b>\$ 319,813</b>	<b>\$ 147,482</b>	<b>\$ 206,343</b>
<b>EBITDA Margin, %</b>	<b>21.0%</b>	<b>21.5%</b>	<b>23.1%</b>	<b>21.9%</b>	<b>23.9%</b>
<b>EPS (US\$)</b>	<b>\$ 1.15</b>	<b>\$ 1.61</b>	<b>\$ 1.24</b>	<b>\$ 0.57</b>	<b>\$ 0.75</b>

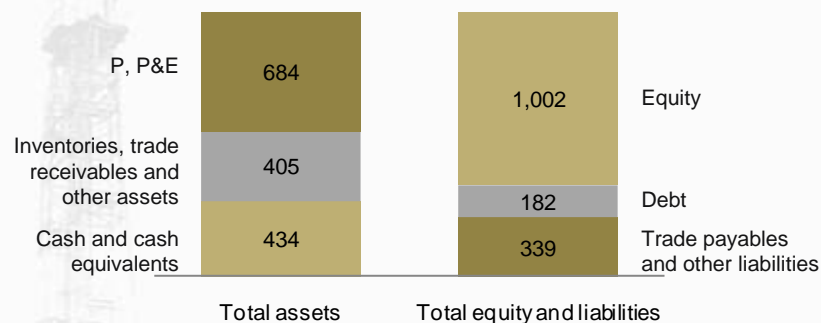
# Appendix: Balance sheet

## Balance Sheet, as of 31-Dec-08 (US\$ mm)



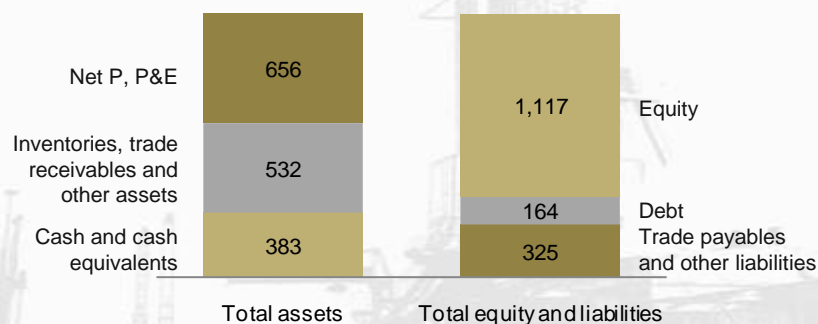
**Equity ratio<sup>1</sup>: 77.0%**

## Balance Sheet, as of 31-Dec-09 (US\$ mm)



**Equity ratio<sup>1</sup>: 84.6%**

## Balance Sheet, as of 30-Jun-2010 (US\$ mm)



**Equity ratio<sup>1</sup>: 87.2%**

<sup>1</sup> Calculated as total equity to total equity plus total debt

# Appendix: Balance sheet (US\$'000)



	2006 Audited	2007 Audited	2008 Audited	2009 Audited	30-Jun-10 Unaudited
<i>Exchange Rate RUB/US\$</i>	26.3	24.5	29.4	30.2	31.2
<b>ASSETS</b>					
<b>Current Assets</b>					
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
<b>Total Current Assets</b>	<b>\$ 362,707</b>	<b>\$ 769,591</b>	<b>\$ 754,384</b>	<b>\$ 794,849</b>	<b>\$ 798,098</b>
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
<b>Total Assets</b>	<b>\$ 629,058</b>	<b>\$ 1,359,803</b>	<b>\$ 1,445,535</b>	<b>\$ 1,523,408</b>	<b>\$ 1,571,468</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>					
<b>Current Liabilities</b>					
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
<b>Total Current Liabilities</b>	<b>\$ 255,101</b>	<b>\$ 365,031</b>	<b>\$ 381,719</b>	<b>\$ 350,997</b>	<b>\$ 305,600</b>
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
<b>Total Liabilities</b>	<b>\$ 467,069</b>	<b>\$ 537,907</b>	<b>\$ 564,992</b>	<b>\$ 521,250</b>	<b>\$ 454,779</b>
<b>SHAREHOLDERS' EQUITY</b>					
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)
<b>Total Shareholders' Equity</b>	<b>\$ 161,989</b>	<b>\$ 821,896</b>	<b>\$ 880,543</b>	<b>\$ 1,002,158</b>	<b>\$ 1,116,689</b>
<b>Total Liabilities and Shareholders's Equity</b>	<b>\$ 629,058</b>	<b>\$ 1,359,803</b>	<b>\$ 1,445,535</b>	<b>\$ 1,523,408</b>	<b>\$ 1,571,468</b>

# Appendix: Cash flow statement (US\$'000)



	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>1H 2009</b>	<b>1H 2010</b>
	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Unaudited</b>	<b>Unaudited</b>
<b>Net Income</b>	\$ 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)
<b>Cash from Operations</b>	<b>\$ 173,320</b>	<b>\$ 309,851</b>	<b>\$ 409,507</b>	<b>\$ 168,931</b>	<b>\$ 109,599</b>
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)
<b>Net increase/(decrease) in cash</b>	<b>\$ 313,793</b>	<b>\$ (63,659)</b>	<b>\$ 154,294</b>	<b>\$ (925)</b>	<b>\$ (50,554)</b>

# Appendix: Third Quarter 2010 Results



## Financial Highlights

- Revenue was US\$ 491mln in 3Q 2010 compared to US\$ 334 mln in 3Q 2009 (revenue for 9M10 US\$ 1,353 mln vs US\$ 1,007 mln for 9M09)
- EBITDA margin was 24.5% (9M09 slightly above 23%)
- Net cash position was US\$ 253 mln as of September 30, 2010
- US\$ 34 mln debt repaid in the period
- Capital expenditures YTD were US\$ 170 mln compared to US\$ 75 mln for 9M09
- Average exchange rate 30.0 RUB/USD for 9M10 compared to 30.8 RUB/USD for 9M09

## Operating Highlights

- Drilling output of 3,065,111 meters for 9M10 was 6% ahead y-o-y (9M09 drilling output was 2,900,309 meters)
- Our major customer accounted for 57% of total meters drilled in 9M10
- *ASTRA* jack-up rig was fully utilized; three wells drilled & completed YTD, fourth in progress
- Three wells drilled & completed YTD with a fourth in progress on Lukoil's Yuri Korchagin field platform
- Took the delivery of two rigs and deployed to southern Russia
- Drilled & completed four wells YTD in Kazakhstan, two additional in progress

# Appendix: EDC is one of the world's largest onshore drilling companies



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--554--	Nabors Industries LTD
--353--	Precision Drilling Corp
--350--	Patterson UTI Energy, Inc
--313--	Ensign Energy Services Inc
--257--	Helmrich & Payne, Inc
--211--	<b>Eurasia Drilling Company Ltd</b>
--55--	KCA Deutag
--32--	Rowan Companies Inc
--28--	Parker Drilling Co.

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--\$7.2-	Nabors Industries LTD
--\$6.3--	Helmrich & Payne, Inc
--\$4.6-	<b>Eurasia Drilling Company Ltd</b>
--\$4.5--	Rowan Companies Inc
--\$3.7--	Patterson UTI Energy, Inc
--\$2.9--	Precision Drilling Corp
--\$2.4--	Ensign Energy Services Inc
--\$0.5--	Parker Drilling Co.

Sources: companies' web sites

Source: Bloomberg

\* Market Cap as of 2 Feb, 2011, US\$ billion