EURASIA DRILLING COMPANY LIMITED

Interim Consolidated Financial Statements

(prepared in accordance with US GAAP)

As of and for the six-month period ended June 30, 2016

(unaudited)

These interim consolidated financial statements were prepared by Eurasia Drilling Company Limited in accordance with US GAAP and have not been audited by our independent auditor. If these interim consolidated financial statements are audited in the future, the audit could reveal differences in our consolidated financial results and we can not assure that any such differences would not be material.

Contents

JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123112
Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Review Report

The Board of Directors

Eurasia Drilling Company Limited:

Report on the Financial Statements

We have reviewed the accompanying interim consolidated balance sheet of Eurasia Drilling Company Limited and its subsidiaries ("the Company") as of June 30, 2016, and the related interim consolidated statements of comprehensive income, stockholders' equity and cash flows for the six-month periods ended June 30, 2016 and 2015.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

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

JSC KPMG

JSC "KPMG"

August 18, 2016

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

	Note	As of June 30, 2016 (unaudited)	As of December 31, 2015
Assets			
Current assets			
Cash and cash equivalents	4	217,111	259,164
Accounts receivable, net	5	377,051	295,699
Inventories		119,674	113,341
Taxes receivable		4,380	3,748
Other current assets		6,775	5,398
Total current assets		**724,991**	**677,350**
Property, plant and equipment	6	1,602,146	1,541,603
Advances given for property, plant and equipment		28,993	25,311
Goodwill	7	21,682	19,116
Deferred income tax assets		6,933	6,918
Other non-current assets	4	11,821	47,584
Total assets		**2,396,566**	**2,317,882**
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		295,547	318,303
Advances received		1,840	95
Current portion of long-term liabilities for property, plant and equipment	9	31,758	92,433
Current portion of long-term debt	8	150,889	186,159
Taxes payable		60,721	45,146
Total current liabilities		**540,755**	**642,136**
Long-term debt	8	1,018,256	1,024,222
Long-term liabilities for property, plant and equipment	9	4,936	12,891
Accrued pension liability		9,781	7,715
Deferred income tax liabilities		100,455	78,630
Other non-current liabilities		13	9,885
Total liabilities		**1,674,196**	**1,775,479**
Stockholder's equity	13		
Common stock		1,042	1,042
Additional paid-in capital		118,486	118,486
Retained earnings		1,816,865	1,790,808
Accumulated other comprehensive loss		(1,214,023)	(1,367,933)
Total Stockholder's equity		**722,370**	**542,403**
Total liabilities and Stockholder's equity		**2,396,566**	**2,317,882**

LIABILITY COMPANY EURASIA DRILLING COMPANY LIMITED * CAYMAN ISLANDS *

Taleh M. Aleskerov
CFO of Eurasia Drilling Company Limited

August 18, 2016

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

	Note	For the six months ended June 30, 2016 (unaudited)	For the six months ended June 30, 2015 (unaudited)
Revenues			
Drilling and related services		748,791	917,502
Other sales and services		7,788	5,201
Total revenues		**756,579**	**922,703**
Cost of services	12	(606,205)	(726,322)
Selling, general and administrative expenses		(46,841)	(70,593)
(Loss) gain on disposal of property, plant and equipment		(690)	163
Gain on disposal of materials		775	1,078
Other (expense) income		(178)	1,183
Income from operating activities		**103,440**	**128,212**
Interest expense		(30,943)	(18,808)
Interest income		4,165	12,338
Foreign currency exchange rate loss		(30,204)	(419)
Income before income taxes		**46,458**	**121,323**
Current income taxes		(10,120)	(24,141)
Deferred income taxes		(10,281)	(6,624)
Total income tax expense	3	**(20,401)**	**(30,765)**
Net income		**26,057**	**90,558**
Basic and diluted earnings per share of common stock (US dollars)	13	0.25	0.63
Other comprehensive loss:			
Foreign currency translation income		153,910	19,496
Total comprehensive income		**179,967**	**110,054**

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

	Common stock	Treasury stock, at cost	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income, net of tax	Total Stock-holders' equity
Balances as of December 31, 2014	**1,469**	**(58,573)**	**653,379**	**1,645,372**	**(1,055,322)**	**1,186,325**
Net income (unaudited)	-	-	-	90,558	-	**90,558**
Other comprehensive income (unaudited)	-	-	-	-	19,496	**19,496**
Total comprehensive income (unaudited)						**110,054**
Disposal of common stock (unaudited)	-	330	-	-	-	**330**
Balances as of June 30, 2015 (unaudited)	**1,469**	**(58,243)**	**653,379**	**1,735,930**	**(1,035,826)**	**1,296,709**
Balances as of December 31, 2015	**1,042**	**-**	**118,486**	**1,790,808**	**(1,367,933)**	**542,403**
Net income (unaudited)	-	-	-	26,057	-	**26,057**
Other comprehensive income (unaudited)	-	-	-	-	153,910	**153,910**
Total comprehensive income (unaudited)						**179,967**
Balances as of June 30, 2016 (unaudited)	**1,042**	**-**	**118,486**	**1,816,865**	**(1,214,023)**	**722,370**

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

	Note	For the six months ended June 30, 2016 (unaudited)	For the six months ended June 30, 2015 (unaudited)
Cash flows from operating activities			
Net income		**26,057**	**90,558**
Adjustments for non-cash items:			
Depreciation		89,793	97,833
Deferred income taxes		10,281	6,624
Loss / (gain) on disposal of property, plant and equipment		690	(163)
Allowance for doubtful accounts receivable		(583)	(577)
Foreign currency exchange rate loss		30,204	419
All other items – net		447	(114)
Changes in operating assets and liabilities:			
Accounts receivable		(36,682)	6,914
Inventories		5,325	(20,391)
Taxes receivable and payable		6,931	28,892
Other current assets and liabilities		(960)	(6,270)
Accounts payable and accrued liabilities		(24,418)	(2,519)
Advances received		339	604
Net cash provided by operating activities		**107,424**	**201,810**
Cash flows from investing activities			
Purchases of property, plant and equipment including advances		(51,768)	(124,926)
Proceeds from sale of property, plant and equipment		428	947
Loans made		(6,242)	(1,742)
Loan principal collections		7,514	4,714
Return of deposit for issuance of bank guarantee		30,550	-
Net cash used in investing activities		**(19,518)**	**(121,007)**
Cash flows from financing activities			
Proceeds from issuance of long-term debt		71,166	-
Principal repayments of long-term debt		(121,610)	(1,998)
Payments for property, plant and equipment by installments		(62,908)	(36,314)
Merger consideration to GDRs holders	14	(27,697)	-
Net cash used in financing activities		**(141,049)**	**(38,312)**
Effect of exchange rate changes on cash		11,090	695
Net (decrease) increase in cash and cash equivalents		**(42,053)**	**43,186**
Cash and cash equivalents at beginning of period		259,164	327,055
Cash and cash equivalents at end of period	4	**217,111**	**370,241**
Supplemental disclosures of cash flow information			
Interest paid (net of amount capitalized)		31,307	18,869
Income tax paid		17,252	18,800

Note 1. Basis of Financial Statement presentation

The accompanying interim consolidated financial statements and notes thereto of Eurasia Drilling Company Limited (the “Company) and its subsidiaries (together, the “Group) have not been audited by independent auditors, except for the balance sheet as of December 31, 2015. In the opinion of the Company’s management, the interim consolidated financial statements include all adjustments and disclosures necessary to present fairly the Group’s financial position, results of operations and cash flows for the interim periods reported herein. These adjustments were of a normal recurring nature.

These interim consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) applicable to interim financial reporting. These interim consolidated financial statements should be read in conjunction with the Group’s December 31, 2015 annual consolidated financial statements. The interim consolidated financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2015 consolidated financial statements.

The results for the six-month period ended June 30, 2016 are not necessarily indicative of the results expected for the full year.

Functional and reporting currency

The functional currency of the Company and its subsidiaries, except for OOO Burovaya Kompaniya Eurasia, OOO KRS Eurasia and OOO SGC is the US dollar. The functional currency of OOO Burovaya Kompaniya Eurasia, OOO KRS Eurasia and OOO SGC is the Russian ruble because this is the currency of the primary economic environment in which they operate and in which cash is generated and expended. The Group’s reporting currency is the US dollar.

The closing exchange rate as of June 30, 2016 and December 31, 2015 was 64.2575 and 72.8827 Russian rubles to one US dollar, respectively.

Note 2. Recent accounting pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). This ASU, the result of the FASB-IASB’s Joint efforts, provides modifications that increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU will take effect for private companies for fiscal years after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020.

In January 2016, the FASB has issued Accounting Standards Update (ASU) No. 2016-01, Financial Instruments — Overall (Subtopic 825-10), to clarify certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is intended to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instrument as it improves the accounting model to better meet the requirements of today’s complex economic environment. The ASU will take effect for private companies for fiscal years after December 15, 2018 and for interim periods within fiscal years beginning after December 15, 2019.

Note 3. Income taxes

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

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

Note 3. Income taxes (continued)

Operations in the Russian Federation are subject to a Federal income tax rate of 2.0% and a regional income tax rate that varies from 13.5% to 18.0% at the discretion of the individual regional administration. The Group’s foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

The majority of the Group’s earnings for the periods ended June 30, 2016 and 2015 were taxed in the Russian Federation.

Based on the Company’s intercompany dividend policy the Company recognized deferred income tax on 30% and 20% of the undistributed earnings of its Russian subsidiary OOO Burovaya Kompaniya Eurasia and of its other Russian subsidiaries from its on-shore segment earned during the reporting period, respectively, and on 65% of the undistributed earnings of its Russian subsidiaries from its off-shore segment earned during the reporting period. The remaining balances of retained earnings of these companies is considered to be reinvested indefinitely. Management of the Company has the intention and the ability not to distribute these retained earnings.

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:

	For the six months ended June 30, 2016 (unaudited)	**For the six months ended June 30, 2015 (unaudited)**
Income before income tax	46,458	121,323
Notional income tax at Russian statutory rate 20%	9,292	24,265
Increase in income tax due to:		
Other non-deductible items, net	595	1,520
Regional rate differences	(88)	(371)
Withholding tax	1,194	1,763
Foreign rate differential	9,408	3,588
Total income tax expense	**20,401**	**30,765**

Note 4. Cash and cash equivalents

Cash and cash equivalents include the following:

	As of June 30, 2016	**As of December 31, 2015**
Cash held in banks - Russian rubles	95,602	70,005
Short-term deposit - Russian rubles	44,696	114,658
Cash held in banks – US dollars	61,470	21,501
Short-term deposit - US dollars	15,341	52,996
Other	2	4
Total cash and cash equivalents	**217,111**	**259,164**

As of December 31, 2015 the Group had restricted cash in the amount of USD 30.6 million as a cover for a UniCredit bank guarantee issued in favor of Azerbaijan customs for exemption from customs duties of one of its jack-up rigs. This amount was included in “Other non-current assets”. In March 2016 the guarantee was transformed to uncovered and the USD 30.6 million became unrestricted.

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

Note 5. Accounts receivable, net

Accounts receivable include the following:

	As of June 30, 2016	**As of December 31, 2015**
Trade accounts receivable	302,480	232,144
Unbilled revenue	64,999	53,936
Other accounts receivable	6,669	5,516
Advances given	11,385	12,143
	385,533	303,739
Allowance for doubtful accounts	(8,482)	(8,040)
Total accounts receivable, net	**377,051**	**295,699**

Note 6. Property, plant and equipment

Property, plant and equipment include the following:

	As of June 30, 2016	**As of December 31, 2015**
Machinery and equipment	2,289,452	1,776,745
Buildings	21,925	20,195
Vehicles	41,698	36,183
	2,353,075	1,833,123
Less: accumulated depreciation	(842,346)	(670,998)
Construction in progress	91,417	379,478
Total property, plant and equipment	**1,602,146**	**1,541,603**

During the six months ended June 30, 2016 and the year ended December 31, 2015 the Group capitalized interest in the amount of USD nil and USD 14.6 million, respectively, this was included in Construction in progress.

Note 7. Goodwill

The movement in goodwill was as following:

Goodwill as of December 31, 2015	**19,116**
Cumulative translation adjustment	2,566
Goodwill as of June 30, 2016	**21,682**

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

Note 8. Long-term debt

Long-term debt includes the following:

Lender	**Final maturity date**	**As of June 30, 2016**	**As of December 31, 2015**
Debt of the Company			
UniCredit Bank Austria AG	2017	151,333	201,778
Loans from stockholders	2019	40,000	40,000
Debt of the Company's subsidiaries			
4.875% Eurobonds, maturing 2020	2020	600,000	600,000
10.25% Russian ruble bonds, maturing 2019	2019	77,812	-
8.4% Russian ruble bonds, maturing 2018	2018	-	68,603
PJSC Rosbank	2018	150,000	150,000
LUKOIL Investments Cyprus Ltd.	2017	150,000	150,000
Total long-term debt		**1,169,145**	**1,210,381**
Current portion of long-term debt		(150,889)	(186,159)
Total non-current long-term debt		**1,018,256**	**1,024,222**

UniCredit Bank Austria AG

Long-term debt with UniCredit Bank Austria AG with an outstanding balance of USD 151.3 million as of June 30, 2016 is denominated in USD and bears interest at LIBOR+3.25% per annum.

Stockholders

Long-term loans from stockholders as of June 30, 2016 represent loans denominated in US dollars which bear interest at 5.8% and mature on December 31, 2019.

Debt of the Company's subsidiaries

Eurobonds

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

Russian ruble bonds

In June 2016, the Group issued 5 million non-convertible bonds with a face value of 1,000 Russian rubles each. The bonds were placed at face value with a maturity of 1,095 days. The bonds have a 182 days' coupon period and bear interest at 10.25% per annum.

In June 2011, the Group issued 5 million non-convertible bonds with a face value of 1,000 Russian rubles each. The bonds were placed at face value with a maturity of 2,548 days. The bonds had a 182 days' coupon period and bore interest at 8.4% per annum for the first 10 coupon periods. The interest rate for the remaining 4 coupon periods shall be determined at the end of the 10^{th} coupon period. Bond holders had an option to call the redemption of the bonds in June of 2016. The bonds were fully repaid in June of 2016.

PJSC Rosbank

Long-term debt with PJSC Rosbank with an outstanding balance of USD 150.0 million as of June 30, 2016 is denominated in USD and bears interest at LIBOR + 3.6% per annum.

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

Note 8. Long-term debt (continued)

LUKOIL Investments Cyprus Ltd.

Long-term convertible debt with LUKOIL Investments Cyprus Ltd. with an outstanding balance of USD 150.0 million as of June 30, 2016 is denominated in USD and bears interest at LIBOR + 3.8% per annum. The lender can convert this debt at any time to an equity stake in OOO BKE at a fair conversion price determined by a valuation from a reputable independent expert. This loan is secured by an equity stake in OOO BKE.

Unused credit lines

As of June 30, 2016 the Group had two unused lines with UniCredit Bank Austria AG. These overdraft lines are denominated in USD and available until the second quarter of 2018. The remaining amount at the currency exchange rate as of June 30, 2016 equals to USD 9.1 million. Lines are solely intended for issuing or extending unsecured commercial letters of credit for the purpose of acquiring new drilling rigs. As of June 30, 2016 the remaining amounts of the lines were undrawn.

As of June 30, 2016 the Group also had two revolving multi-currency overdraft lines with Sberbank of Russia denominated in Russian rubles. The total undrawn remaining amount of the lines at the currency exchange rate as of June 30, 2016 equaled to USD 54.1 million and is available until June 2019. The lines are solely intended for issuing or extending unsecured commercial letters of credit for the purpose of acquiring new drilling rigs.

The long-term loans with UniCredit Bank Austria AG and PJSC Rosbank are secured by property, plant and equipment with a carrying amount of USD 145.4 million and USD 35.9 million as of June 30, 2016 and December 31, 2015, respectively.

Maturities of long-term debt outstanding at June 30, 2016 are as follows:

Jul 1, 2016 to Jun 30, 2017	Jul 1, 2017 to Dec 31, 2017	2018	2019	2020	2021 and thereafter	Total
150,889	233,777	66,667	117,812	600,000	-	1,169,145

Note 9. Long-term liabilities for property, plant and equipment

Long-term liability for Property, plant and equipment represents accounts payable to OOO Rushong-Hua per different contracts for drilling rigs purchased by installments in one or three years. The majority of the total outstanding balance of USD 36.7 million as of June 30, 2016 is denominated in rubles and bears interest at 5.0%-6.3% per annum.

Jul 1, 2016 to Jun 30, 2016	Jul 1, 2017 to Dec 31, 2017	2018	2019	2020	2021 and thereafter	Total
31,758	4,936	-	-	-	-	36,694

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

Note 10. Pension benefits

Components of net periodic benefit cost were as follows:

	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Service cost	366	428
Interest cost	449	636
Less expected return on plan assets	(74)	(112)
Amortisation of prior service benefit	109	133
Total net periodic benefit cost	**850**	**1,085**

Note 11. Fair value of financial instruments

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

The fair value of long-term debt and long-term liabilities for property, plant and equipment (Level 3) differ from the amount disclosed in the consolidated interim financial statements as of June 30, 2016. The estimated fair value of long-term debt as of June 30, 2016 and December 31, 2015 was USD 1,177 million and USD 1,117 million, respectively, as a result of discounting using estimated market interest rates for similar financing arrangements. The estimated fair value of long-term liabilities for property, plant and equipment as of June 30, 2016 and December 31, 2015 was USD 35 million and USD 103 million, respectively, as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar maturities, repayment schedules and similar other main terms. During the six months period ended June 30, 2016, the Group did not have significant transactions or events that would result in nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

Note 12. Cost of services

Cost of services includes the following:

	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Third party services	242,721	290,374
Staff cost, incl. social contributions	157,366	201,722
Materials	101,173	116,439
Depreciation	89,793	97,833
Other	15,152	19,954
Total cost of services	**606,205**	**726,322**

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

Note 13. Stockholders' equity

Common stock

Number of shares	Year ended June 30, 2016	Year ended December 31, 2015
Authorized and issued common stock, par value 0.01 US dollar each	104,210,589	104,210,589
Issued and outstanding common stock, par value 0.01 US dollar each	**104,210,589**	**104,210,589**

Dividends and dividends limitations

Profits available for distribution from the Company's Russian subsidiaries to the Company in respect of any reporting period are primarily determined by reference to the statutory financial statements of these subsidiaries prepared in accordance with the laws of the Russian Federation and denominated in Russian rubles. Under Russian Law, dividends are limited to the retained earnings as set out in the statutory financial statements of the Company's Russian subsidiaries. These laws and other legislative acts governing the rights of stockholders to receive dividends are subject to various interpretations.

Retained earnings of the Company's Russian subsidiaries were RUB 73.0 billion and RUB 58.2 billion, respectively as of June 30, 2016 and December 31, 2015, pursuant to the statutory financial statements, which at the US dollar exchange rates as of June 30, 2016 and December 31, 2015 amount to USD 1,137 million and USD 799 million, respectively.

No dividends were declared for 2015 nor 2016 as of June 30, 2016.

Earnings per share

The calculation of earnings per share was as follows:

	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Net income available for common stockholders	26,057	90,558
Weighted average number of outstanding shares	104,210,589	144,812,085
Basic and diluted earnings per share of common stock (US dollars)	0.25	0.63

Note 14. Commitments and contingencies

Capital expenditures

The Group has signed a number of contracts for land rigs constructions with OOO Rushong-Hua (refer to Note 9). The total commitment for capital expenditures per these contracts is USD 40 million and USD 111 million, respectively as of June 30, 2016 and of December 31, 2015.

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 for the risks which could have a material effect on the Group's operations and financial position.

Note 14. Commitments and contingencies (continued)

Litigation

On April 9, 2012 China Petrochemical International Company Limited (CPIC) filed a demand for arbitration with the Arbitration Institute of the Stockholm Chamber of Commerce against Cyprus Oilfield Holdings Limited (COHL), a Group company. The arbitration involved a contract for the purchase of five drilling rigs from CPIC which COHL terminated for failure to deliver the rigs on time and in accordance with specifications. On March 7, 2014 the arbitration tribunal found against COHL and awarded CPIC USD 29.7 million in damages, USD 1.3 million for additional work, USD 0.1 million in lost profits, USD 0.9 million as penalty and reimbursement of a USD 6.2 million performance bond from CPIC which COHL had exercised, with accrued interest (at a commercial rate determined by the tribunal) and certain other costs. The Group accrued a liability for the total amount of USD 50.9 million in the consolidated financial statements as of December 31, 2013 included in “Accounts payable and accrued liabilities”. During 2014 an amount of USD 53.6 million was paid to CPIC as a final settlement of the arbitration award. On February 19, 2016 the Group lost the appeal in the Stockholm arbitration and as a result was ordered to reimburse CPIC’s costs in the amount of USD 1.1 million which was accrued as a liability as of December 31, 2015 in “Accounts payable and accrued liabilities”. As of June 30, 2016 the amount was fully paid.

On October 12, 2015 the Group announced the intent to merge the Company with a separate company formed by members of the Company’s management team. On November 13, 2015 at an extraordinary general meeting of the Company the merger was approved by the requisite majority of the shareholders. As a result of the merger, on November 18, 2015 the Company was delisted from the London Stock Exchange by paying a merger consideration of USD 11.75 per share to the GDRs holders who accepted the merger consideration. All of the GDRs and treasury stock were cancelled. Some of the shareholders (the dissenting shareholders) did not approve the merger and indicated their intention to challenge the conditions of the merger. As of December 31, 2015 dissenting shareholders who have not been able to agree on a price for their shares held 9,126,325 shares. The Company initiated legal proceedings and seeks the court’s determination of the fair value of the shares held by the dissenting shareholders. The Company believes the original merger consideration offer is fair and had accrued a consideration payment of USD 11.75 per share in the total amount of USD 107.2 million in the consolidated financial statements as of December 31, 2015 included in “Accounts payable and accrued liabilities”. During the reporting period the Company reached a settlement with the some of the dissenting shareholders and paid USD 11.75 per share or a total amount of USD 27.7 million. The remaining dissenting shareholders who are involved in the court proceedings hold 6,769,126 shares which is equivalent to USD 79.5 million, included in “Accounts payable and accrued liabilities” as of June 30, 2016.

The Group is involved in other 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.

Note 14. Commitments and contingencies (continued)

As liabilities in respect of the Group's environmental obligations are able to be determined, they are charged against income. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results, cash flows or financial position of the Group.

Taxation

The taxation systems in the Russian Federation, Kazakhstan and Turkmenistan are relatively new and are characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open in Russia 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 legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these interim consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Note 15. Related party transactions

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in transactions. The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties in this environment and has disclosed all of the relationships identified which it deemed to be significant.

The Company’s General Counsel, Douglas Stinemetz, is a partner with The Stinemetz Law Firm. During the six months ended June 30, 2016 and 2015 the firm billed the Company for costs and expenses of USD 0.6 million and USD 1.7 million, respectively. Mr. Stinemetz is not otherwise paid for his services as the Company’s General Counsel.

Long-term loans from stockholders were USD 40 million as of June 30, 2016 and December 31, 2015, respectively (refer to Note 8). Interest expense of USD 1.2 million and USD 1.2 million was recognized and paid on these loans during the six month period ended June 30, 2016 and 2015, respectively.

During the reporting period the Group acquired equipment from OOO Kliver. The total amount of purchased equipment during the reporting period was USD 0.3 million (during 6 months 2015: USD 1.0 million).

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

Note 15. Related party transactions (continued)

During the reporting period the Company reached a settlement with the some of the dissenting shareholders and paid USD 11.75 per share or a total amount of USD 27.7 million.

Note 16. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended June 30, 2016 and 2015, in accordance with ASC 280, *"Disclosures about Segments of an Enterprise and Related Information"*.

The Group has two segments: on-shore drilling conducted in the CIS and off-shore drilling conducted in the Caspian Sea that qualify as both operating and geographical. These segments are based upon the Group's organizational structure, the way in which these operations are managed, the availability of separate financial results, and materiality considerations. Management, on a regular basis, assesses the performance of these operating segments.

Geographical segments have been determined based on the area of operations and include two segments. They are CIS and the Caspian Sea.

Detailed segment information is summarized as follows:

As of and for the six-month period ended June 30, 2016

	On-shore drilling services (CIS)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	711,533	45,046	756,579
Net income	38,612	(12,555)	26,057
Total assets	1,618,480	778,086	2,396,566
Goodwill	21,682	-	21,682

As of December 31, 2015 and for the six-month period ended June 30, 2015

	On-shore drilling services (CIS)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	816,347	106,356	922,703
Net income	50,268	40,290	90,558
Total assets	1,516,396	801,486	2,317,882
Goodwill	19,116	-	19,116

Note 17. Concentration of credit risk and sales

A significant proportion of the Group's operations (exceeding 10 percent of the Group's revenue) are with LUKOIL Group companies and with Gazprom Group companies. As such the Group has significant concentrations of credit risk with these Groups.

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

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

Note 17. Concentration of credit risk and sales (continued)

	2016	**2015**
Revenues from LUKOIL Group for the six months ended June 30	465,341	581,262
Revenues from Gazprom Group for the six months ended June 30	93,307	125,791
Accounts receivable from LUKOIL Group as of June 30, 2016 and December 31, 2015	154,484	132,366
Accounts receivable from Gazprom Group as of June 30, 2016 and December 31, 2015	59,077	39,586

Note 18. Incentive Compensation Plan

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

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

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

Related to this plan the Company recorded USD 3.7 million during the reporting period as compensation expense. During the six months ended June 30, 2016 compensation in the amount of USD 12.7 million was paid in cash to the participants. As of June 30, 2016 USD 9.7 million and USD nil million related to this plan are included in “Accounts payable and accrued liabilities” and “Other non-current liabilities” on the consolidated balance sheets, respectively (as of December 31, 2015: USD 12.7 million and USD 6.0 million, respectively). The Company has approximately USD 7.6 million of unrecognized compensation expense as of June 30, 2016 that will be accrued up to December 31, 2018.

Note 19. Subsequent events

The Company has evaluated subsequent events from the balance sheet date through August 18, 2016, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.