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, 2012

(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.

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Independent Accountants' Report

The Board of Directors of
Eurasia Drilling Company Limited:

We have reviewed the accompanying consolidated balance sheet of Eurasia Drilling Company Limited and subsidiaries ("the Company") as of June 30, 2012, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for the six-month periods ended June 30, 2012 and 2011. This interim financial information is the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. 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 taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for them to be in conformity with accounting principles generally accepted in the United States of America.

ZAO KPMG

August 22, 2012

ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

	Note	As of June 30, 2012 (unaudited)	As of December 31, 2011
Assets			
Current assets			
Cash and cash equivalents	4	320,766	509,781
Accounts receivable, net	5	440,040	348,082
Inventories	6	252,205	214,434
Taxes receivable		20,391	33,146
Deferred income tax assets		4,566	5,057
Other current assets	9	37,684	42,719
Total current assets		**1,075,652**	**1,153,219**
Property, plant and equipment	7	1,465,268	1,286,125
Long-term accounts receivable		488	2,181
Deferred income tax assets		2,753	2,833
Goodwill	8, 15	104,581	105,399
Other non-current assets	9	49,003	48,672
Total assets		**2,697,745**	**2,598,429**
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		393,981	407,411
Advances received		10,663	3,766
Current portion of long-term debt	10	188,831	175,217
Deferred income tax liabilities		8,600	5,340
Taxes payable		70,865	69,030
Total current liabilities		**672,940**	**660,764**
Long-term debt	10	481,592	578,117
Accrued pension liability		12,523	11,216
Deferred income tax liabilities		66,497	49,376
Total liabilities		**1,233,552**	**1,299,473**
Stockholders' equity	14		
Common stock		1,469	1,469
Treasury stock, at cost		(1,652)	(2,244)
Additional paid-in capital		682,298	680,198
Retained earnings		974,517	787,250
Accumulated other comprehensive loss		(192,439)	(167,717)
Total stockholders' equity		**1,464,193**	**1,298,956**
Total liabilities and stockholders' equity		**2,697,745**	**2,598,429**

W. Richard Anderson
CFO of Eurasia Drilling Company Limited

August 22, 2012

EURASIA DRILLING COMPANY LIMITED LIABILITY COMPANY CAYMAN ISLANDS

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

	Note	For the six months ended June 30, 2012 (unaudited)	For the six months ended June 30, 2011 (unaudited)
Revenues			
Drilling and related services		1,558,650	1,254,715
Other sales and services		5,535	10,567
Total revenues		**1,564,185**	**1,265,282**
Cost of services, excluding depreciation and taxes	13	(1,048,835)	(864,732)
General and administrative expenses, excluding depreciation and taxes		(70,475)	(63,142)
Taxes other than income taxes		(69,453)	(70,536)
Depreciation		(108,342)	(93,412)
Loss on disposal of property, plant and equipment		(157)	(3,392)
Income from operating activities		**266,923**	**170,068**
Interest expense		(27,403)	(21,133)
Interest income		6,543	3,753
Currency transaction gain		2,206	1,745
Gain on business exchange transaction	15	-	32,861
Other (expense) income		(2,108)	149
Income before income taxes		**246,161**	**187,443**
Current income taxes		(35,053)	(25,959)
Deferred income taxes		(23,841)	(10,883)
Total income tax expense	3	**(58,894)**	**(36,842)**
Net income		**187,267**	**150,601**
Basic and diluted earnings per share of common stock (US dollars)	14	1.28	1.03
Other comprehensive income:			
Foreign currency translation (loss) gain		(24,722)	53,796
Comprehensive income		**162,545**	**204,397**

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 Stockholders' equity
Balances as of December 31, 2010	**1,469**	**(13,148)**	**691,535**	**578,989**	**(74,063)**	**1,184,782**
Net income	-	-	-	150,601	-	**150,601**
Other comprehensive income	-	-	-	-	53,796	**53,796**
Comprehensive income						**204,397**
Disposal of treasury stock	-	481	-	-	-	**481**
Purchase of treasury stock		(2,869)	-	-	-	**(2,869)**
Incentive compensation plan	-	-	2,100	-	-	**2,100**
Exercise of incentive compensation plan	-	15,536	(15,536)	-	-	-
Balances as of June 30, 2011	**1,469**	**-**	**678,099**	**729,590**	**(20,267)**	**1,388,891**
Balances as of December 31, 2011	**1,469**	**(2,244)**	**680,198**	**787,250**	**(167,717)**	**1,298,956**
Net income	-	-	-	187,267	-	**187,267**
Other comprehensive loss	-	-	-	-	(24,722)	**(24,722)**
Comprehensive income						**162,545**
Disposal of treasury stock	-	592	-	-	-	**592**
Incentive compensation plan	-	-	2,100	-	-	**2,100**
Balances as of June 30, 2012	**1,469**	**(1,652)**	**682,298**	**974,517**	**(192,439)**	**1,464,193**

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, 2012 (unaudited)	For the six months ended June 30, 2011 (unaudited)
Cash flows from operating activities			
Net income		**187,267**	**150,601**
Adjustments for non-cash items:			
Depreciation		108,342	93,412
Accrued interest expense		441	1,469
Deferred income taxes		23,841	10,883
Loss on disposal of property, plant and equipment		157	3,392
Gain on business exchange transaction		-	(32,861)
Allowance for doubtful accounts receivable		(166)	18
Foreign currency exchange rate difference (unrealized)		225	(167)
Incentive plan		2,100	2,100
All other items – net		499	(595)
Changes in operating assets and liabilities:			
Accounts receivable		(122,359)	(118,961)
Inventories		(43,287)	(35,857)
Taxes receivable		12,828	1,167
Other current assets		3,694	(9,029)
Accounts payable and accrued liabilities		47,841	54,926
Advances received		7,496	(970)
Taxes payable		1,986	12,314
Other liabilities		798	(6,832)
Net cash provided by operating activities		**231,703**	**125,010**
Cash flows from investing activities			
Purchases of property, plant and equipment including advances		(281,783)	(171,023)
Change in restricted cash	9	-	(43,713)
Proceeds from sale of property, plant and equipment		1,928	13,830
Sale of subsidiary, net of cash disposed		-	95,009
Loan principal collections		-	1,048
Acquisition of subsidiaries, net of cash acquired		-	(557,750)
Net cash used in investing activities		**(279,855)**	**(662,599)**
Cash flows from financing activities			
Proceeds from issuance of short-term debt		-	90,000
Proceeds from issuance of long-term debt		-	398,508
Principal repayments of long-term debt		(71,163)	(18,925)
Repayment of capital lease obligations		-	(293)
Dividends paid		(68,976)	(45,387)
Purchases of treasury stock		-	(2,869)
Net cash (used in) provided by financing activities		**(140,139)**	**421,034**
Effect of exchange rate changes on cash		(723)	20,696
Net decrease in cash and cash equivalents		**(189,014)**	**(95,859)**
Cash and cash equivalents at beginning of period		509,780	629,466
Cash and cash equivalents at end of period	**4**	**320,766**	**533,607**
Supplemental disclosures of cash flow information			
Interest paid		26,154	16,203
Income tax paid		20,404	25,203

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, 2011. 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, 2011 annual consolidated financial statements. The interim consolidated financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2011 consolidated financial statements.

The results for the six-month period ended June 30, 2012 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 Kliver, OOO KWWD, OOO UWWD, OOO Meridian, OOO SGC, ZAO SKRS and TOO BKE Kazakhstan Burenie, is the US dollar. The functional currency of OOO Burovaya Kompaniya Eurasia, OOO Kliver, OOO KWWD, OOO UWWD, OOO Meridian, OOO SGC, ZAO SKRS is the Russian ruble and the functional currency of TOO BKE Kazakhstan Burenie is the Kazakh Tenge because these are the currencies of the primary economic environments in which they operate and in which cash is generated and expended. The Group's reporting currency is the US dollar.

The closing exchange rate as of June 30, 2012 and December 31, 2011 was 32.8169 and 32.1961 Russian rubles to one US dollar, respectively.

Note 2. Recent accounting pronouncements

Changes in accounting policy

In September 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-08, *"Testing Goodwill for Impairment,"* which allows an entity to use a qualitative approach to test goodwill for impairment. This ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and hence whether it is necessary to perform the two-step goodwill impairment test as required by the provisions of Topic 350 of the Codification. ASU No. 2011-08 is effective for annual and interim goodwill impairment tests performed for the fiscal years beginning after December 15, 2011. The Group adopted the requirements of ASU No. 2011-08 starting from January 1, 2012. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows and did not require additional disclosures.

Note 2. Recent accounting pronouncements (continued)

Changes in accounting policy (continued)

In June 2011, the FASB issued ASU No. 2011-05, *"Presentation of comprehensive income,"* which amends Topic 220 of the Codification. This ASU increases the prominence of other comprehensive income in financial statements. Under this ASU, an entity will have the option to present the components of net income and comprehensive income in either one or two statements. The ASU eliminates the option in US GAAP to present other comprehensive income in the statement of changes in equity. ASU No. 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011 (except those reclassification adjustments deferred by ASU No. 2011-12) and should be applied retrospectively. The Group adopted the requirements of ASU No. 2011-05 starting from January 1, 2012. This adoption changed the presentation of net and comprehensive incomes and stockholders' equity, but did not have any impact on the Group's results of operations, financial position or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, *"Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs,"* which amends Topic 820 of the Codification. This ASU provides guidance for fair value measurements and disclosure requirements and clarifies the Board's intent about the application of existing fair value measurement requirements. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under US GAAP. ASU No. 2011-04 is effective for public entities during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. The Group adopted the requirements of ASU No. 2011-04 starting from the January 1, 2012. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows.

In April 2011, the FASB issued ASU No. 2011-02, *"A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring,"* which amends Topic 310 of the Codification. This ASU provides additional guidance in considering whether a restructuring constitutes a troubled debt restructuring and helps creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties. ASU No. 2011-02 is effective starting from the first interim or annual period beginning on or after June 15, 2011. The Group adopted the requirements of ASU No. 2011-02 starting from January 1, 2012. This adoption did not have a material impact on the Group's results of operations, financial position or cash flows and did not require additional disclosures.

Recent accounting pronouncements not yet adopted

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

Note 3. Income taxes

Operations in the Russian Federation are subject to a Federal income tax rate of 2.0% and a regional income tax rate that varies from 13.5% to 18.0% at the discretion of the individual regional administration.

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

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

The majority of the Group's earnings for the periods ended June 30, 2012 and 2011 were taxed in the Russian Federation.

The Group's effective income tax rates for the periods ended June 30, 2012 and 2011 differ from the statutory income tax rate primarily due to the incurrence of costs that are either not tax deductible or only deductible to a certain limit.

The Company changed its intercompany dividend policy starting December 31, 2011 and recognized deferred income tax on 20% of the undistributed earnings of its Russian subsidiary OOO Burovaya Kompaniya Eurasia earned during the reporting period and on 20% of the undistributed earnings of its other Russian subsidiaries from its on-shore segment and on 30% of the undistributed earnings of its Russian subsidiaries from its off-shore segment. The remaining balances of retained earnings of these companies are considered to be reinvested indefinitely. Management of the Company has the intention and the ability to not distribute these retained earnings.

Note 4. Cash and cash equivalents

Cash and cash equivalents include the following:

	As of June 30, 2012	As of December 31, 2011
Cash held in banks - Russian rubles	165,492	188,410
Short-term deposit - Russian rubles	88,668	194,771
Cash held in banks – US dollars	66,453	81,770
Short-term deposit - US dollars	8	39,320
Other	145	5,510
Total cash and cash equivalents	**320,766**	**509,781**

Note 5. Accounts receivable, net

Accounts receivable include the following:

	As of June 30, 2012	As of December 31, 2011
Trade accounts receivable	446,378	354,621
Advances given	7,832	8,062
	454,210	362,683
Allowance for doubtful accounts	(14,170)	(14,601)
Total accounts receivable, net	**440,040**	**348,082**

Note 6. Inventories

Inventories include the following:

	As of June 30, 2012	As of December 31, 2011
Materials for drilling and workover	221,403	190,727
Work in progress	30,802	23,707
Total inventories	**252,205**	**214,434**

Note 7. Property, plant and equipment

Property, plant and equipment include the following:

	As of June 30, 2012	As of December 31, 2011
Machinery and equipment	1,727,616	1,524,661
Buildings	28,757	28,654
Vehicles	27,264	23,231
	1,783,637	1,576,546
Less: accumulated depreciation	(595,789)	(515,930)
Construction in progress	90,794	92,142
Advances given for property, plant and equipment	186,626	133,367
Total property, plant and equipment	**1,465,268**	**1,286,125**

Note 8. Goodwill

The movement in goodwill was as following:

Goodwill as of December 31, 2011	**105,399**
Cumulative translation adjustment	(818)
Goodwill as of June 30, 2012	**104,581**

Note 9. Other current and non-current assets

The Group had restricted cash of USD 42.0 million included in other non-current assets as of June 30, 2012 and December 31, 2011. This amount collateralizes the Company's issuance of commercial letters of credit.

The Group had additional restricted cash of USD 1.4 million included in other current assets as of June 30, 2012 and December 31, 2011. The amount collateralizes the Company's issuance of a guarantee for a customer.

The Group had bank deposits with original maturities that exceeded 3 months in amount of USD 5.3 million and USD 34.6 million included in other current assets as of June 30, 2012 and December 31, 2011, respectively.

Note 10. Long-term debt

Long-term debt includes the following:

Lender	Final maturity date	As of June 30, 2012	As of December 31, 2011
Debt of the Company			
Loans from stockholders	2014	50,000	50,000
Debt of the Company's subsidiaries			
Raiffeisenbank	2016	220,000	220,000
Alfa Bank	2013	170,034	231,084
8.4% Russian ruble bonds, maturing 2018	2018	152,361	155,298
OAO Sberbank of Russia	2014	50,787	62,119
OAO Sberbank of Russia	2013	27,241	31,441
Individual	2012	-	3,392
Total long-term debt		**670,423**	**753,334**
Current portion of long-term debt		(188,831)	(175,217)
Total non-current long-term debt		**481,592**	**578,117**

Loans from Stockholders

Long-term loans from stockholders as of June 30, 2012 represent loans denominated in US dollars which bear interest at 5.8%-8.6% and mature on or before December 31, 2014.

Debt of the Company's subsidiaries

Raiffeisen Bank

Long-term debt with Raiffeisen Bank with an outstanding balance of USD 220.0 million as of June 30, 2012 is denominated in USD and bears interest at 5.65% per annum. This debt is secured by the shares of newly acquired company CSVI (refer to Note 15).

Alfa-Bank

Long-term debt with Alfa-Bank with an outstanding balance of USD 170.0 million as of June 30, 2012 is denominated in Russian rubles and bears interest at 8.4% per annum.

Russian ruble bonds

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

OAO Sberbank of Russia

Long-term debt with OAO Sberbank of Russia with an outstanding balance of USD 50.8 million as of June 30, 2012 is denominated in Russian rubles and bears interest at 7.7% per annum.

Long-term debts with OAO Sberbank of Russia with an outstanding balance of USD 27.2 million as of June 30, 2012 are denominated in Russian rubles and bear interest at LIBOR plus 4.1% per annum.

Note 10. Long-term debt (continued)

Loan from Individual

Long-term debt from an individual represented a loan denominated in US dollars which bore stated interest at 0% and matured on May 1, 2012. This related to the acquisition of the new workover company OOO Meridian. This loan was recorded at fair value based on the effective interest rate estimated by Management to be applicable to the Company at the acquisition date which was 13% per annum. This debt was secured by the shares of OOO Meridian.

Unused credit lines

As of June 30, 2012 the Group had two unused lines with ZAO UniCredit Bank. The first one is a revolving line of credit denominated in Russian rubles which at the currency exchange rate as of June 30, 2012 equals to USD 89.0 million. This line of credit is short-term in nature with the duration of 90 days and availability period until November 2014. The second one is a revolving overdraft line denominated in Russian rubles which at the currency exchange rate as of June 30, 2012 equals to USD 16.0 million and is available until September 2015. Both lines are solely intended for issuing or extending unsecured commercial letters of credit for the purpose of acquiring new drilling rigs (used as security for these lines). As of June 30, 2012 both lines were undrawn.

Also as of June 30, 2012 the Group had a revolving multi-currency overdraft line with OAO Sberbank of Russia denominated in Russian rubles which at the currency exchange rate as of June 30, 2012 equals to USD 91.4 million and is available until June 2017. It is solely intended for issuing or extending unsecured commercial letters of credit for the purpose of acquiring new drilling rigs. As of June 30, 2012 this line was undrawn.

Long-term debt of subsidiaries and overdraft lines are secured by property, plant and equipment with a carrying amount of USD 147.9 million as of June 30, 2012 (December 31, 2011: USD 50.4 million).

Maturities of long-term debts outstanding at June 30, 2012 are as follows:

July 1, 2012 to June 30, 2013	July 1, 2013 to December 31, 2013	2014	2015	2016	2017 and thereafter	Total
188,831	109,686	118,007	67,692	33,846	152,361	670,423

Note 11. Pension benefits

Components of net periodic benefit cost were as follows:

	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Service cost	774	427
Interest cost	652	549
Less expected return on plan assets	(175)	(397)
Amortisation of prior service benefit	158	82
Recognised actuarial gain	-	(22)
Total net periodic benefit cost	**1,409**	**639**

Note 12. Fair value of financial instruments

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

During the six months ended June 30, 2012 and 2011, the Group did not have significant transactions or events that would result in nonfinancial assets and liabilities needing to be measured at fair value on a nonrecurring basis.

Note 13. Cost of services, excluding depreciation and taxes

Cost of services includes the following:

	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Services of subcontractors	466,202	389,936
Wages and salaries	235,708	202,360
Materials	196,423	155,098
Fuel and energy	78,418	62,500
Transportation of employees to drilling fields	22,416	14,864
Leasing and rent	11,702	7,739
Other	37,966	32,235
Total cost of services	**1,048,835**	**864,732**

Note 14. Stockholders' equity

Common stock

	As of June 30, 2012	As of December 31, 2011
Number of authorized and issued common stock, par value 0.01 US dollar each	146,865,243	146,865,243
Number of shares held as treasury stock	(77,857)	(105,781)
Issued and outstanding common stock, par value 0.01 US dollar each	**146,787,386**	**146,759,462**

The movement of treasury stock was as following:

Number of shares held in treasury as of December 31, 2011	**105,781**
Directors fees	(27,924)
Number of shares held in treasury as of June 30, 2012	**77,857**

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.

Note 14. Stockholders' equity (continued)

Dividends and dividends limitations (continued)

Retained earnings of the Company's Russian subsidiaries were RUB 32.4 billion and RUB 25.4 billion, respectively as of June 30, 2012 and December 31, 2011, pursuant to the statutory financial statements, which at the US dollar exchange rates as of June 30, 2012 and December 31, 2011 amount to USD 988 million and USD 789 million, respectively.

On December 12, 2011 the Board of Directors declared dividends for 2011 of USD 0.47 per share of common stock. Dividends payable by the Company of USD 69 million were included in "Accounts payable and accrued liabilities" in the consolidated balance sheet as of December 31, 2011. During the six months ended June 30, 2012 dividends were fully paid.

Earnings per share

The calculation of earnings per share was as follows:

	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Net income available for common stockholders	187,267	150,601
Weighted average number of outstanding shares	146,778,071	146,728,649
Basic earnings per share of common stock (US dollars)	1.28	1.03
Weighted average number of outstanding shares, after dilution	146,778,071	146,728,649
Diluted earnings per share of common stock (US dollars)	1.28	1.03

Note 15. Business combinations

On February 9, 2011 the Group acquired a 100% interest in Caspian Sea Ventures International Limited (CSVI) from Transocean Offshore International Ventures Limited for USD 262.9 million paid in cash. Caspian Sea Ventures Limited is the owner of a jack-up drilling rig operating in the Turkmen waters of the Caspian Sea. The purpose of the acquisition was to increase the Group's share in the Caspian offshore drilling market.

The Group allocated USD 62.1 million to goodwill, USD 194.2 million to property, plant and equipment, USD 5.6 million to cash, USD 11.3 million to current assets and USD 10.3 million to current 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 and the profit margins that the acquired business is expected to generate. The goodwill is not considered to be deductible for tax purposes.

On April 28, 2011 the Group acquired a 100% interest in OOO Sibirskaya Geophisicheskaya Company (OOO SGC) and 100% in ZAO Samatlorsky KRS (ZAO SKRS) from Schlumberger Limited Group. The aggregate purchase price of the acquired entities was approximately USD 345.5 million, which included USD 242.9 million cash and USD 102.6 million representing the fair value of the Group companies transferred to Schlumberger Limited Group as part of the exchange transaction (effected in cash). The companies transferred were OOO New Technological Service (OOO NTS), OOO Tekhgeoservice (OOO TGS), OOO Megionskoye Tamponazhnoye Upravleniye (OOO MTU). The acquired companies perform drilling and workover services in West Siberia. The purpose of the acquisition was to increase the Group's share in the onshore drilling market and to diversify its client base.

Note 15. Business combinations (continued)

The Group allocated USD 48.3 million to goodwill, USD 220.7 million to property, plant and equipment, USD 40.0 million to cash, USD 63.6 million to accounts receivable, USD 38.3 million to inventory, USD 52.7 million to current liabilities and USD 12.7 million to long-term deferred tax liability. 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 and the profit margins that the acquired business is expected to generate. The goodwill is not considered to be deductible for tax purposes.

The disposal of the Group's companies in consideration to this acquisition resulted in a gain in an amount of USD 32.9 million net of income tax.

Note 16. Commitments and contingencies

Contingencies

Insurance

The insurance industry in the Russian Federation, Kazakhstan and Turkmenistan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Litigation

The Group is involved in various claims and legal actions arising in the normal course of business. It is the opinion of management that the ultimate disposition of these matters will not have a material adverse effect on the Group's consolidated financial position, results of operations, or liquidity.

Environmental obligations

Group companies have operated in the Russian Federation, Kazakhstan and Turkmenistan for several years. Environmental regulations are currently under consideration in these countries. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

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

Note 16. Commitments and contingencies (continued)

Contingencies (continued)

Taxation

The taxation system in the Russian Federation, Kazakhstan and Turkmenistan is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Within the Russian Federation the tax authorities in each region may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessful in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues.

These circumstances may create tax risks that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislations, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these interim consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Note 17. Related party transactions

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

The Company's General Counsel, Douglas Stinemetz, is a partner with The Stinemetz Law Firm. During six months ended June 30, 2012 and 2011 the firm billed the Company for costs and expenses of USD 0.8 million and USD 1.6 million, respectively. Mr. Stinemetz is not otherwise paid for his services as the Company's General Counsel.

Long-term loans from stockholders were USD 50 million as of June 30, 2012 and December 31 (refer to Note 10). Interest expense of USD 1.4 million and USD 3 million was recognized on these loans during the six month period ended June 30, 2012 and 2011, respectively. Interest payable to stockholders was USD 0.7 million and nil as of June 30, 2012 and December 31, 2011, respectively.

Note 18. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended June 30, 2012 and 2011, in accordance with ASC 280, *"Disclosures about Segments of an Enterprise and Related Information"*.

Note 18. Segment information (continued)

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, 2012

	On-shore drilling services (CIS)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	1,478,526	85,659	1,564,185
Net income	150,902	36,365	187,267
Total assets	2,280,596	417,149	2,697,745
Goodwill	42,454	62,127	104,581

As of December 31, 2011 and for the six month period ended June 30, 2011

	On-shore drilling services (CIS)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	1,158,620	106,662	1,265,282
Net income	105,733	44,868	150,601
Total assets	2,180,772	417,657	2,598,429
Goodwill	43,272	62,127	105,399

Note 19. 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.

	2012	2011
Revenues for the six months ended June 30	955,137	762,169
Accounts receivable as of June 30, 2012 and December 31, 2011	213,661	192,569

Note 20. Incentive Compensation plan

In March 2008, the Company introduced an incentive plan for certain members of management ("participants") for a five year period beginning January 1, 2008. Compensation under this plan 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 USD 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 USD 21 million by an independent consulting firm. The Company has approximately USD 2.1 million of unrecognized compensation expense as of June 30, 2012 that will be accrued up to December 31, 2012.

The participants may only receive GDRs, each representing one ordinary share of the Company. Therefore, the plan is equity classified. The Group recognized USD 2.1 million of compensation expense during six month period ended June 30, 2012. As of June 30, 2012, USD 18.9 million was recognized on the Company's balance sheet as an increase in additional paid-in capital.

On February 1, 2011 the Company announced that in accordance with its incentive compensation plan participants of the Plan were awarded 522,060 GDRs for their performance in 2010. One GDR represents one ordinary share.

Based on the stock price as of December 31, 2011 no incentive plan award was due for 2011.

Based on the stock price as of June 30, 2012 no incentive plan award is expected for contingent shares of stock incentive program for the 2012 calendar year.

Note 21. Subsequent events

The Company has evaluated subsequent events from the balance sheet date through August 22, 2012, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.