IMPORTANT: You must read the following before continuing. The following applies to the preliminary prospectus (the "Preliminary Prospectus") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Preliminary Prospectus. In accessing the Preliminary Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the company described herein (the "Company") as a result of such access. The Preliminary Prospectus has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein.

THE FOLLOWING PRELIMINARY PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS PRELIMINARY PROSPECTUS MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS PERMITTED BY REGULATION S UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") OR ANOTHER EXEMPTION FROM, OR TRANSACTION NOT SUBJECT TO, REGISTRATION UNDER THE SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PRELIMINARY PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of Your Representation: In order to be eligible to view this Preliminary Prospectus or make an investment decision with respect to the securities, you must be (i) a person that is outside the United States for the purposes of Regulation S under the Securities Act or (ii) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this Preliminary Prospectus, you shall be deemed to have represented to us that you are outside the United States for the purposes of Regulation S under the Securities Act or that you are a QIB and that you consent to delivery of such Preliminary Prospectus by electronic transmission. You are reminded that this Preliminary Prospectus has been delivered to you on the basis that you are a person into whose possession the Preliminary Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Preliminary Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Company in such jurisdiction.

Under no circumstances shall this Preliminary Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. This Preliminary Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Company.

Under Russian law, the GDRs are securities of a foreign issuer. The GDRs are not eligible for initial offering and public circulation in the Russian Federation. Neither the issue of the GDRs nor a securities preliminary prospectus in respect of the GDRs has been, or is intended to be, registered with the Federal Service for the Financial Markets of the Russian Federation. The information provided in this Preliminary Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the GDRs in the Russian Federation or to or for the benefit of any Russian person or entity.

This Preliminary Prospectus is an advertisement for the purposes of applicable measures implementing the preliminary prospectus directive. A preliminary prospectus prepared pursuant to the preliminary prospectus directive will be published, which, when published, can be obtained from the Company's registered office.

Recipients of this Preliminary Prospectus who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the Preliminary Prospectus.

This Preliminary Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of J.P. Morgan Securities Ltd., or UBS Limited, any person who controls any of them, nor any director, officer, employee or agent of J.P. Morgan Securities Ltd., or UBS Limited, nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Preliminary Prospectus distributed to you in electronic format and the hard copy version available to you on request from J.P. Morgan Securities Ltd., or UBS Limited.

PRELIMINARY PROSPECTUS DATED OCTOBER 18, 2007
SUBJECT TO COMPLETION

EURASIA DRILLING COMPANY LIMITED

(An exempted company incorporated under the laws of the Cayman Islands)

Global Offering of up to ● Shares in the form of Global Depositary Receipts

Offer Price Range: US$20.80 to US$27.20 per Global Depositary Receipt

This prospectus (the "Prospectus") relates to an offering (the "Offering") of up to ● ordinary shares, each with a par value of US$0.01 per share (the "Shares"), of Eurasia Drilling Company Limited (the "Company"), an exempted company incorporated under the laws of the Cayman Islands, in the form of global depositary receipts ("GDRs"), each without nominal value, with each GDR representing an interest in one Share. The Offering is comprised of an offer by the Company of up to ● Shares in the form of up to ● GDRs and an offer by certain shareholders of the Company (the "Selling Shareholders") of a total of ● Shares in the form of ● GDRs.

This document constitutes a prospectus relating to the Company prepared in accordance with the prospectus rules (the "Prospectus Rules") of the UK Financial Services Authority (the "Financial Services Authority") made under Section 73A of the Financial Services and Markets Act 2000 (the "FSMA"). This Prospectus will be made available to the public in accordance with the Prospectus Rules.

The Offering does not constitute an offer to sell, or the solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Offering consists of (a) an offering in the United States of America (the "United States") to certain qualified institutional buyers (each, a "QIB") as defined in Rule 144A ("Rule 144A") under the United States Securities Act of 1933, as amended (the "Securities Act"), of GDRs (the "Rule 144A GDRs") in reliance on Rule 144A and (b) an offering outside the United States and the Russian Federation of GDRs (the "Regulation S GDRs") in reliance on Regulation S under the Securities Act ("Regulation S"). The GDRs have not been, and will not be, registered under the Securities Act or any state securities laws and may not be offered, sold, pledged or otherwise transferred in the United States absent registration or an exemption from registration under the Securities Act. For a description of certain restrictions on sales and transfers of the GDRs, see "Selling and Transfer Restrictions".

The Company has granted J.P. Morgan Securities Ltd. and UBS Limited (the "Lead Managers") an option (the "Over-Allotment Option"), exercisable within 30 days after the announcement of the offer price, to purchase up to an additional ● Shares in the form of GDRs, solely to cover over-allotments, if any, in the Offering.

AN INVESTMENT IN THE GDRS INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS". The GDRs are of a specialist nature and should only be purchased and traded by investors who are particularly knowledgeable in investment matters.

The Company has applied to the Financial Services Authority for a block listing of up to ● GDRs (of which ● will be issued on or about ● 2007 (the "Closing Date"), of which ● may be issued pursuant to the Over-Allotment Option, if exercised, and ● may be issued from time to time against the deposit of Shares with JPMorgan Chase Bank, N.A., as depositary (the "Depositary")) on its official list (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") to admit such GDRs for trading under the symbol "EDCL" on its main market for listed securities (the "Main Market") through its International Order Book (regulated market segment) (the "IOB"). The IOB is a regulated market for purposes of the Markets in Financial Instruments Directive 2004/39/EC. Admission to the Official List, together with admission to the Main Market ("Admission"), constitutes listing on a stock exchange. Prior to the Closing Date, there has not been any public market for the Shares or the GDRs. The Company expects that conditional trading in the GDRs on the London Stock Exchange through the IOB will commence on a "when and if issued" basis on or about ● 2007 and that unconditional trading through the IOB will commence on or about ● 2007. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. The Shares have not been, and are not expected to be, listed on any stock exchange.**

The GDRs offered hereby are being offered by the managers (the "Managers") as named in "Subscription and Sale" or through their selling agents, when, as and if delivered to and accepted by them and subject to their right to reject any order in whole or in part. The Regulation S GDRs will be evidenced by a Regulation S Master Global Depositary Receipt (the "Regulation S Master GDR"), which will be issued by the Depositary, registered in the name of, and deposited with, BNP Paribas Securities Services, Luxembourg branch, as common depositary for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"). Euroclear and Clearstream are expected to accept the GDRs for settlement in their respective book-entry settlement systems. The Rule 144A GDRs will be evidenced by a Rule 144A Master Global Depositary Receipt (the "Rule 144A Master GDR" and, together with the Regulation S Master GDR, the "Master GDRs") registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC") in New York. Except as set forth herein, investors may hold beneficial interests in and transfer the GDRs only through DTC, Euroclear or Clearstream and their direct and indirect participants, as applicable. Transfers within Euroclear and Clearstream, or within DTC, will be in accordance with the usual rules and operating procedures of the relevant system. The Company expects that delivery of the GDRs will be made through DTC, with respect to the Rule 144A GDRs, and through Euroclear and Clearstream, with respect to the Regulation S GDRs, in each case on or about ● 2007.

Joint Global Coordinators and Bookrunners

JPMorgan **UBS Investment Bank**

Co-Manager

Alfa Capital Markets

The date of this Prospectus is ● 2007

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

If you are in any doubt about the contents of this Prospectus you should consult your stockbroker, bank manager, solicitor, accountant or financial adviser. It should be remembered that the price of securities and the income from them can go down as well as up.

The Company accepts responsibility for the information contained in this Prospectus. To the best knowledge of the Company (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. As far as the Company is aware and able to ascertain, no facts have been omitted which would render the information reproduced or sourced from the market report described below inaccurate or misleading and, with respect to the reproduced or sourced information, the Company accepts responsibility only for the accurate extraction of such information from the market report.

Certain information under the heading "Industry" and related market and competitive data appearing elsewhere in this Prospectus has been reproduced from a market report dated September 26, 2007 that was prepared at our request and expense by Douglas-Westwood Limited, a third party, referred to hereinafter as Douglas-Westwood. Douglas-Westwood is a global consulting and services organization focused on the energy and marine industries. Douglas-Westwood has no material interest in the Company. Excerpts of the market report prepared by Douglas-Westwood for us, any summaries of portions of such market report, and any information sourced from such market report are included in this Prospectus with the approval, consent and authorization of Douglas-Westwood which has authorized the contents of those parts of this Prospectus. Douglas-Westwood accepts responsibility for the market and competitive data in the sections entitled "Summary", "Industry", "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" attributable to it and confirms that it has taken all reasonable care to ensure that the information contained in the parts of the Prospectus for which it is responsible is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information. The business address of Douglas-Westwood is Saint Andrews House, Station Road East, Canterbury CT1 2WD, England.

The contents of the Company's website do not form any part of this Prospectus.

The Managers are acting for the Company and no one else in connection with the Offering. They will not regard any other person as their respective clients in relation to the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for providing advice in relation to the Offering or any transaction or arrangement referred to in this Prospectus.

The distribution of this Prospectus and the offer of the Shares and GDRs in certain jurisdictions may be restricted by law. No action has been or will be taken by the Company or the Managers to permit a public offering of the Shares or the GDRs or to permit the possession or distribution of this Prospectus (or any other offering or publicity materials or application form(s) relating to the Shares or the GDRs) in the UK or any other jurisdiction where action for that purpose may be required. Accordingly, neither this Prospectus nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions. The Offering and sale of the GDRs and the distribution of this Prospectus are subject to the restrictions set forth below and under "Subscription and Sale" and "Selling and Transfer Restrictions".

Investors should rely only on the information in this Prospectus. No person has been authorized to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied on as having been authorized by the Company, the Selling Shareholders or the Managers. Neither the delivery of this Prospectus nor any subscription or purchase of GDRs made pursuant to this Prospectus shall, under any circumstances, be taken to imply that there has been no change in the affairs of the Company since, or that the information contained herein is correct at any time subsequent to, the date of this Prospectus.

Apart from the responsibilities and liabilities, if any, which may be imposed on any of the Managers by the FSMA or the regulatory regime established thereunder, none of the Managers accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Shares, the GDRs or the Offering. The Managers accordingly disclaim all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of such Prospectus or any such statement.

The contents of this Prospectus are not to be construed as legal, financial, business or tax advice. Each prospective investor should consult his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice. None of the Company, the Selling Shareholders or any of the Managers makes any representation to any offeree or purchaser of the GDRs regarding the legality of an investment in such GDRs by such offeree or purchaser.

In connection with the Offering, the Managers and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Managers or any of them and any of their affiliates acting as an investor for its or their own account(s). The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with the Offering, J.P. Morgan Securities Ltd. (the "Stabilizing Manager"), or persons acting on its behalf, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market for a period of 30 days after the announcement of the Offer Price. However, the Stabilizing Manager is not required to enter into such transactions. Such stabilizing, if commenced, may be discontinued at any time, and may only be undertaken during the period from ●, 2007 up to and including ●, 2007 (the "Stabilization Period").

In connection with the Offering, the Stabilizing Manager or persons acting for it, may, for stabilization purposes, over-allot GDRs up to a maximum of 15% of the total number of GDRs comprised in the Offering. For the purposes of allowing the Stabilizing Manager to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by the Stabilizing Manager during the Stabilization Period, the Company has granted the Lead Managers the Over-Allotment Option pursuant to which the Lead Managers may require the Company to issue additional Shares, to be issued by the Depositary as GDRs, up to a maximum of 15% of the total number of GDRs comprised in the Offering, at the Offer Price. The Over-Allotment Option is exercisable, in whole or in part, upon notice by the Lead Managers, at any time during the Stabilization Period. Any GDRs made available pursuant to the Over-Allotment Option will be issued on the same terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

In making an investment decision, prospective investors must rely on their own examination of the Company and the terms of this Prospectus, including the risks involved.

A copy of this Prospectus can be obtained at the registered office of the Company. See "General Information". The information set forth in this Prospectus is only accurate as of the date on the front cover of this Prospectus. The Company's business and financial condition may have changed since that date.

NOTICE TO INVESTORS IN THE CAYMAN ISLANDS

An exempted company such as the Company that is not listed on the Cayman Islands Stock Exchange is prohibited from making any invitation to the public in the Cayman Islands to subscribe for the Shares or the GDRs.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

In any Member State of the European Economic Area ("EEA") that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "Prospectus Directive"), this communication is only addressed to and is only directed at qualified investors in that Member State within the meaning of the Prospectus Directive.

This Prospectus has been prepared on the basis that all offers of GDRs will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of GDRs. Accordingly any person making or intending to make any offer within the EEA of GDRs which is the subject of the placement contemplated in this Prospectus should only do so in

circumstances in which no obligation arises for the Company or any of the Managers to produce a prospectus for such offer. Neither the Company nor the Managers have authorized, nor do they authorize, the making of any offer of GDRs through any financial intermediary, other than offers made by Managers which constitute the final placement of GDRs contemplated in this Prospectus.

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

Under Russian law, the GDRs are securities of a foreign issuer. The GDRs are not eligible for "placement" and "public circulation" in the Russian Federation. Neither the issue of the GDRs nor a securities prospectus in respect of the GDRs has been, or is intended to be, registered with the Russian Federal Service for Financial Markets (the "FSFM"). The information provided in this Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the GDRs in the Russian Federation or to any Russian residents except as may be permitted by Russian law.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This Prospectus is only being distributed to and is only directed at: (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act (Financial Promotion) Order 2005 (the "Order"); and (iii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, all such persons together being referred to as "relevant persons". The GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such GDRs will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

NOTICE TO INVESTORS IN THE UNITED STATES

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION, MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO INVESTORS IN CANADA

The GDRs have not been and will not be qualified by prospectus for sale to the public in Canada under applicable Canadian securities laws and, accordingly, any offer or sale of the GDRs in Canada will be made pursuant to an exemption from the applicable prospectus filing requirements, and otherwise in compliance with applicable Canadian laws. Investors in Canada should refer to the section entitled "Selling and Transfer Restrictions—Canada" and Ontario purchasers in particular should refer to the subsection entitled "Rights of Action for Damages or Rescission (Ontario)".

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are "forward-looking" within the meaning of Section 27A of the Securities Act and Section 21E of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe", "expect", "anticipate", "intend", "estimate", "forecast", "project", "will", "may", "should" and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear in a number of places in this Prospectus including, without limitation, "Risk Factors", "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", and include statements regarding:

- strategies, outlook and growth prospects;
- future plans, expectations, projections and potential for future growth;
- plans or intentions relating to acquisitions;
- future revenues and performance;
- integration of our businesses, including recently acquired businesses;
- liquidity, capital resources and capital expenditures;
- growth in demand for our services;
- economic outlook and industry trends;
- developments of our markets;
- the impact of regulatory initiatives;
- our competitive strengths and weaknesses; and
- the strengths of our competitors.

The forward-looking statements in this Prospectus are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and which are beyond our control, and we may not achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in political, social, legal or economic conditions in Russia, including significant declines in Russia's gross domestic product ("GDP");
- changes in the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, government ministers and their offices and the Prosecutor General and his office;
- political, legal or economic changes in the other markets in which we operate;
- increased interest rates and operating costs, including the supply of, and the price for, steel and other commodities in Russia;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our ability to implement successfully any of our business strategies;
- fluctuation in the supply, demand or price of oil and natural gas on the world markets;
- decreased prices of drilling services;
- our ability to obtain necessary regulatory approvals;
- changes in the regulation of oilfield services and the environment;
- competition in the marketplace;

- changes in tax rates;
- changes in accounting standards or practices;
- inflation, fluctuation in exchange rates and the availability of foreign currencies;
- the impact of general business and global economic conditions; and
- our success in identifying other risks relating to our business and managing the risks of the aforementioned factors.

The foregoing list is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Except to the extent required by law, neither we, nor any of our agents, employees or advisors intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained in this Prospectus.

AVAILABLE INFORMATION

For so long as any Shares or GDRs representing such Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which the Company is neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser or subscriber of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser or subscriber, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Company is incorporated under the laws of the Cayman Islands. Certain persons referred to herein are residents of the Russian Federation and certain entities referred to herein are incorporated under the laws of the Cayman Islands or the Russian Federation or other countries of the Commonwealth of Independent States. All or a substantial portion of our assets and the assets of such persons and entities are located outside the United Kingdom and the United States. As a result, it may not be possible for investors to effect service of process upon such persons in the United Kingdom or the United States or to enforce against them or us judgments obtained in foreign courts predicated upon the civil liability provisions of the securities laws of jurisdictions other than the Cayman Islands.

There is no bilateral treaty between the Cayman Islands and the United States or the United Kingdom or any multi-lateral treaty to which the Cayman Islands and the United States or the United Kingdom are a party in respect of the recognition and enforcement of judgments obtained in US or UK courts, respectively. The courts of the Cayman Islands will however — based on the principle that a judgment by a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given — recognize and enforce a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum, not in respect of taxes or a fine or penalty, is not inconsistent with a Cayman Islands judgment in respect of the same matters, and was not obtained in a manner, and is not a kind, the enforcement of which is contrary to the public policy of the Cayman Islands. There is doubt, however, as to whether the Grand Court of the Cayman Islands will (i) recognize or enforce judgments of US courts predicated upon the civil liability provisions of the securities laws of the United States or any state of the United States, or (ii) in original actions brought in the Cayman Islands, impose liabilities predicated upon the civil liability provisions of the securities laws of the United States or any state of the United States, on the grounds that such provisions are penal in nature. The Grand Court of the Cayman Islands may stay proceedings if concurrent proceedings are being brought elsewhere.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The audited consolidated financial statements of the Company in respect of the years ended December 31, 2006 and 2005 included in this Prospectus (the "Audited Consolidated Financial Statements") and the unaudited interim consolidated financial statements of the Company in respect of the six months ended June 30, 2007 and 2006 included in this Prospectus (the "Unaudited Interim Financial Statements") have been prepared in accordance with United States Generally Accepted Accounting Principals ("US GAAP"). The Unaudited Interim Financial Statements reflect all normal and recurring adjustments that are necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Results of operations for the six months ended June 30, 2007 are not necessarily indicative of results for the full year ending December 31, 2007, for any other interim period or for any future fiscal year. We refer to our Audited Consolidated Financial Statements and our Unaudited Interim Financial Statements together as our "Consolidated Financial Statements".

Market and Other Statistical Data

Market data used in this Prospectus under the captions "Summary", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Industry" and "Business" have been extracted from official and industry sources and other sources we believe to be reliable. Throughout this Prospectus, we have also set forth certain statistics from industry sources and other sources we believe to be reliable. Sources of such information, data and statistics include the Ministry of Natural Resources of the Russian Federation. Such information, data and statistics have been accurately reproduced and, as far as we are aware and are able to ascertain from information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. The official data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable. See "Risk Factors — Risks Related to Our Industry — The history and composition of the Russian oilfield services market make data collection and comparison difficult, and such data may be incomplete and/or subject to error".

Presentation of Certain Terminology

In this Prospectus, all references to:

"BKE" are to OOO "Burovaya Kompaniya Eurasia", a Russian limited liability company, the main operating entity of our onshore drilling services division;

"**CIS**" are to the Commonwealth of Independent States and its member states as of the date of this Prospectus: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan;

"**EU**" are to the European Union;

"**EUR**", "**euro**" and "**€**" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European Community;

"**Eurasia**", the "**Company**", the "**Group**", "**we**", "**us**" or "**our**" are to Eurasia Drilling Company Limited and its consolidated subsidiaries, unless the context otherwise requires;

"LUKOIL" are to OAO NK "LUKOIL" and its consolidated subsidiaries;

"**RUB**", "**Russian ruble**" and "**ruble**" are to the currency of the Russian Federation;

"**Russia**" are to the Russian Federation;

"**UK**" and "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland;

"**US dollar**", "**US$**" and "**$**" are to the currency of the United States of America; and

"**US**" and "**United States**" are to the United States of America.

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

EXCHANGE RATE INFORMATION

The functional currency of the Company and its subsidiaries (other than BKE) is the US dollar. The US dollar is the reporting currency selected by the Company for purposes of financial reporting in accordance with US GAAP. The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Russian ruble and the US dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation (the "CBR" or the "Central Bank"). Fluctuations in the exchange rate between the Russian ruble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the rates used in the preparation of the Company's financial statements and other information presented in this Prospectus. See Note 2 to the Audited Consolidated Financial Statements.

	High	Low	Period average[1]	Period end
	RUB per US$1.00			
Year ended December 31,				
2002	31.86	30.14	31.34	31.78
2003	31.88	29.25	30.69	29.45
2004	29.45	27.75	28.81	27.75
2005	29.00	27.46	28.29	28.78
2006	28.78	26.18	27.19	26.33
Month ended				
January 31, 2007	26.57	26.33	26.47	26.53
February 28, 2007	26.55	26.16	26.34	26.16
March 31, 2007	26.24	25.97	26.11	26.01
April 30, 2007	26.01	25.69	25.84	25.69
May 31, 2007	25.92	25.69	25.82	25.90
June 30, 2007	26.05	25.78	25.93	25.82
July 31, 2007	25.82	25.39	25.56	25.60
August 31, 2007	25.84	25.34	25.62	25.65
September 30, 2007	25.70	24.95	25.33	24.95

(1) The average of the exchange rates on the last business day of each month for the relevant annual periods and on each business day for which the CBR quotes the Russian ruble to US dollar exchange rate for the relevant monthly period.

The exchange rate between the ruble and the US dollar quoted by the CBR on October 17, 2007 was 24.90 rubles per US$1.00.

Until recently, the Russian ruble was generally not convertible outside Russia. A market existed within Russia for the conversion of Russian rubles into other currencies, but the limited availability of other currencies in Russia may have inflated their value relative to the Russian ruble. From July 1, 2006, the CBR abolished existing restrictions on currency operations creating the conditions for the Russian ruble to become a freely convertible currency. At this point, however, it is not yet possible to determine whether, or when, an active international market in the Russian ruble will develop.

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SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the GDRs should be based on a consideration of this Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the EEA, no civil liability will attach to the Company in any such Member State solely on the basis of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State of the EEA, the plaintiff investor may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Information is presented in this Prospectus on the basis of certain conventions that are set forth above under "Presentation of Financial and Other Information".

Overview

According to Douglas-Westwood, we are the largest independent provider of onshore drilling services in Russia, as measured by the number of meters drilled, providing onshore integrated well construction services and workover services. In addition, we provide offshore drilling services in the Caspian Sea. We offer our onshore integrated well construction services and workover services to local and international oil and gas companies primarily in Russia and our offshore drilling services to Russian and international oil and gas companies in the Russian, Kazakh and Turkmen sectors of the Caspian Sea.

We entered the onshore drilling and workover services business in December 2004 by acquiring substantially all of the onshore drilling and certain related assets of LUKOIL. In 2006, we entered the offshore drilling business by acquiring the offshore drilling business of LUKOIL, which included "Astra", a floating jack-up drilling rig located in the Caspian Sea. According to Douglas-Westwood, as at December 31, 2006, we had an estimated market share of approximately 20.3% of the onshore drilling services market in Russia, as measured by number of meters drilled.

For the six months ended June 30, 2007, we had total revenue of US$673.5 million, EBITDA of US$136.3 million and net income of US$78.5 million. For the year ended December 31, 2006, we had total revenue of US$1,087.6 million, EBITDA of US$166.0 million and net income of US$90.8 million.

Our business is currently organized within two main divisions, onshore and offshore drilling services. For the six months ended June 30, 2007, we had total revenue of US$658.0 million with respect to our onshore division and total revenue of US$15.4 million with respect to our offshore division.

Our onshore drilling services include the construction of production, exploration and appraisal oil and gas and certain other types of wells, including vertical, deviated and horizontal wells, ranging from a depth of approximately 1,200 to more than 5,000 meters. In addition, through the onshore division we provide a wide range of workover services, including sidetracking. We provide our onshore drilling services in several major onshore oil and gas regions of the Russian Federation — Western Siberia, Timan-Pechora and Volga-Urals — and have recently begun to provide onshore drilling services in Kazakhstan on a limited basis.

Our offshore division constructs oil and gas exploration and production wells in waters with depths of up to 45 meters. We provide our offshore drilling services with our Astra jack-up rig. In the six months ended June 30, 2007, we drilled a total of one exploration and two production wells in the Russian and Turkmen sectors of the Caspian Sea.

In addition to LUKOIL, our customers include a number of the major Russian and international oil and gas companies operating in Russia and the Caspian Sea, such as Rosneft, Gazpromneft, TNK-BP, Total, Shell and Naryanmarneftegas, a joint venture between LUKOIL and ConocoPhillips.

Recent Developments

In furtherance of a letter of intent dated September 7, 2007, on October 2, 2007, BKE and Schlumberger Logelco Inc. ("SLI") entered into an Asset Sale Agreement pursuant to which BKE agreed to purchase from SLI 28 workover rigs and certain other assets for the total consideration of US$37.7 million, including 18% value

added tax, and SLI agreed to (i) use its best efforts to assign certain of its workover contracts in Russia to BKE, (ii) use its best efforts to ensure the hiring of SLI's workover personnel in Russia by BKE and (iii) lease certain of its assets in Russia to BKE. Pursuant to the letter of intent and the agreement, the consideration is payable in three installments, of which the first installment in the amount of approximately US$7.5 million was paid on September 17, 2007, the second installment of approximately US$26.4 million was paid on October 8, 2007 and the third installment of US$3.8 million is payable no later than December 15, 2007. The transaction is expected to close in the fourth quarter of 2007.

Competitive Strengths

- Largest independent onshore drilling contractor in Russia.
- Centralized management with diverse geographical presence in key oil and gas producing regions of the Russian Federation.
- Strategic relationship with LUKOIL.
- Experienced management team and highly-qualified workforce.
- High-quality asset base.

Strategy

- Increase our market share through organic growth and value-enhancing acquisitions.
- Expand our offshore drilling services business.
- Secure access to new land rigs through a joint venture.
- Grow our customer base.
- Expand our workover services business to protect against temporary reductions in demand for drilling services.
- Expand the offering of higher margin horizontal drilling and sidetracking services.
- Continue to improve our high-quality asset base.
- Focus on developing new markets in Russia and selectively pursuing opportunities in other CIS countries.

Risk Factors

An investment in the GDRs involves substantial risks and uncertainties. These risks and uncertainties include, among others, those listed below. Investors should carefully consider all of the information in this Prospectus, including the information included under the section "Risk Factors", prior to making an investment in the GDRs.

- We rely on one key customer for the majority of our revenues.
- A substantial number of the onshore drilling rigs we own and operate are old and require us to undertake substantial expenditures in order to maintain them in fit-for-service condition.
- We may be unable to procure sufficient numbers of new drilling rigs and modernize sufficient numbers of existing drilling rigs to pursue our growth strategy or maintain our business at its current level.
- We may incur losses on our general contractor and turnkey contracts and such contracts could cause our revenues and earnings to fluctuate significantly.
- Our future business performance depends on our ability to win new contracts and to renew and extend existing contracts.
- Our customers' exploration and production licenses may be suspended, amended or terminated prior to the end of their terms and our customers may be unable to obtain or maintain various permits and authorizations.
- We are subject to hazards customary for drilling operations, which could adversely affect our financial performance if we are not adequately indemnified or insured.

- We operate in a highly competitive industry and our failure to compete effectively could result in reduced profitability and loss of market share.
- Changing technologies could increase competition, require us to make substantial additional investments in our business and could have a material adverse effect on our business, financial condition and results of operations.
- Our results of operations are subject to seasonal fluctuations and are otherwise affected by severe weather conditions in the areas in which we provide our services.
- A substantial or extended decline in oil and gas prices could result in lower capital expenditures by the oil and gas industry thereby reducing demand for our services and decreasing our revenue.
- Consolidation among oil and gas companies and among oilfield services providers may result in fewer potential customers of our services or in the termination of our existing contracts with customers or suppliers.
- Continuing increases in the costs associated with drilling may result in our customers re-acquiring in-house drilling divisions.
- Political and governmental instability in Russia could materially adversely affect our business, financial condition and results of operations and the value of our GDRs.
- The reversal of reform policies or the implementation of government policies in Russia targeted at specific individuals or companies could harm our business as well as investments in Russia more generally.
- Political, social and other conflicts create an uncertain operating environment that hinders our long-term planning ability and could adversely affect the value of our investments in Russia.
- Because there has been no prior active public trading market for the GDRs, the Offering may not result in an active or liquid trading market for the GDRs, and their price may be highly volatile.
- The Shares underlying the GDRs are not and will not be listed and may be illiquid.
- Holders of GDRs may face difficulties in protecting their interests because we are incorporated under the laws of the Cayman Islands.

Summary of the Offering

The Offering comprises (i) an offer of Shares in the form of GDRs by the Company to raise gross proceeds of US$450 million; (ii) an offer of Shares in the form of GDRs by certain shareholders to raise gross proceeds of US$215 million; and (iii) an offer of 2,052,750 Shares in the form of GDRs by certain other shareholders. In addition, the Company has granted the Lead Managers an option to acquire Shares in the form of GDRs in an amount up to 15% of the base offer size to cover over-allotments, if any. The GDRs are being offered inside the United States to QIBs in reliance on Rule 144A under the Securities Act and outside the United States and the Russian Federation in reliance on Regulation S under the Securities Act.

Use of Proceeds

After deduction of underwriting commissions, fees and expenses relating to the Offering, we will receive net proceeds from the Offering of US$● (assuming no exercise of the Over-Allotment Option). If the Over-Allotment Option is exercised in full, we will receive net proceeds from the Offering of US$●. We intend to use the net proceeds from the Offering primarily to (i) repay to LUKOIL US$34.3 million (plus accrued interest) owed in connection with the purchase of BKE, (ii) acquire drilling and workover rigs and refurbish existing drilling rigs, (iii) fund strategic acquisitions, (iv) repay certain of our financial indebtedness, (v) make additional capital expenditures and (vi) fund working capital.

Documents on Display

Copies of this Prospectus, the Consolidated Financial Statements, the auditors' reports, the Company's memorandum and articles of association and the Douglas-Westwood market report dated September 26, 2007 will be on display during normal business hours for 12 months from the date of this Prospectus at the Company's registered office at Boundary Hall, Cricket Square, PO Box 1111, Grand Cayman KY1-1102, Cayman Islands.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth certain historical consolidated financial information as of and for the six months ended June 30, 2007 and 2006, and as of and for the years ended December 31, 2006 and 2005. Financial information as of and for the six months ended June 30, 2007 and 2006 has been extracted without adjustment from our Unaudited Interim Financial Statements and the accompanying notes thereto prepared in accordance with US GAAP and included elsewhere in this Prospectus. The Unaudited Interim Financial Statements reflect all normal and recurring adjustments that are necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Results of operations for the six months June 30, 2007 are not necessarily indicative of results for the full year ending December 31, 2007, for any other interim period or for any future fiscal year. Financial information as of and for the periods ended December 31, 2006 and 2005 has been extracted without adjustment from our Audited Consolidated Financial Statements and the accompanying notes thereto, prepared in accordance with US GAAP and included elsewhere in this Prospectus. The summary financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Presentation of Financial and Other Information" and our Consolidated Financial Statements, and the accompanying notes thereto, included elsewhere in this Prospectus.

	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
	(in thousands of US$)			
Consolidated statement of income data				
Drilling and related services	661,231	483,121	1,048,209	669,527
Other sales and services	12,225	17,810	39,363	7,120
Total revenues	**673,456**	**500,931**	**1,087,572**	**676,647**
Cost of services	(467,953)	(366,239)	(806,881)	(526,072)
Selling, general and administrative expenses	(37,399)	(27,234)	(68,243)	(40,666)
Taxes other than income taxes	(31,232)	(21,256)	(41,250)	(31,086)
Depreciation	(14,653)	(9,184)	(23,722)	(14,654)
Gain on disposal of property, plant and equipment	690	175	275	6,596
Income from operating activities	**122,909**	**77,193**	**147,751**	**70,765**
Interest expense	(13,994)	(8,731)	(19,392)	(15,535)
Interest income	626	561	1,343	737
Currency translation gain/(loss)	403	702	870	(199)
Other expenses	(1,665)	(1,118)	(6,350)	(4,875)
Income before income taxes	**108,279**	**68,607**	**124,222**	**50,893**
Income tax expense	(29,734)	(18,369)	(33,457)	(17,041)
Net income	**78,545**	**50,238**	**90,765**	**33,852**

	As of June 30,	As of December 31,	
	2007	2006	2005
	(in thousands of US$)		
Consolidated balance sheet data			
Cash and cash equivalents	19,461	29,296	21,772
Total assets	803,834	629,058	364,703
Total short-term debt (including current portion of long-term debt)	108,273	77,557	52,638
Total long-term debt	239,148	200,196	92,463
Total liabilities	560,571	467,069	301,017
Total equity	243,263	161,989	63,686
Total liabilities and equity	803,834	629,058	364,703

	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
	(in thousands of US$)			
Consolidated cash flow data				
Net cash provided by operating activities	39,338	15,734	49,518	18,841
Net cash used in investing activities	(111,829)	(30,107)	(131,789)	(20,189)
Net cash provided by financing activities	62,656	22,126	89,795	18,296

	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
	(in thousands of US$, except percentages and ratios)			
Certain Items and Ratios				
EBITDA[(1)]	136,300	85,961	165,993	80,345
EBITDA margin[(2)]	20.2%	17.2%	15.3%	11.9%
Capital expenditures[(3)]	115,694	43,437	96,102	37,810
Debt to equity[(4)]	1.43	1.66	1.71	2.28

(1) EBITDA represents profit (loss) before interest income (expense), income taxes and depreciation. We present EBITDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results as reported under US GAAP. Some of these limitations are as set out below:

- EBITDA does not reflect the impact of financing costs, which are significant and could further increase if we incur more debt, on our operating performance.
- EBITDA does not reflect the impact of income taxes on our operating performance.
- EBITDA does not reflect the impact of depreciation on our operating performance. The assets of our business which are being depreciated will have to be replaced in the future and such depreciation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA, EBITDA does not reflect our future cash requirements for these replacements.
- Other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. We compensate for these limitations by relying primarily on our US GAAP operating results and using EBITDA only as a supplement. See our consolidated statements of income and consolidated statements of cash flows included elsewhere in this Prospectus.
- EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, US GAAP. EBITDA is not a measurement of our operating performance under US GAAP and should not be considered as an alternative to profit, operating profit or any other performance measures derived in accordance with US GAAP or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

(2) Calculated as EBITDA divided by total revenues.
(3) Represents cash used for purchases of property, plant and equipment.
(4) Calculated as the sum of the short-term debt (including the current portion of long-term debt) and long-term debt divided by total equity.

Reconciliation of EBITDA to net income is as follows for the periods indicated:

	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
	(in thousands of US$)			
Net income	78,545	50,238	90,765	33,852
Add (subtract):				
Depreciation	14,653	9,184	23,722	14,654
Interest expense	13,994	8,731	19,392	15,535
Interest income	(626)	(561)	(1,343)	(737)
Total income tax expense	29,734	18,369	33,457	17,041
EBITDA	**136,300**	**85,961**	**165,993**	**80,345**

RISK FACTORS

An investment in the GDRs involves a high degree of risk. Prospective investors should carefully consider the risks described below and the other information contained in this Prospectus before making a decision to invest in the GDRs. Any of the following risks, individually or together, could adversely affect our business, financial condition, results of operations or prospects, in which case the trading price of the GDRs could decline, resulting in the loss of all or part of an investment in the GDRs.

The risks and uncertainties below are not the only ones we face, but represent the risks that we believe are material. However, there may be additional risks that we currently consider not to be material or of which we are not currently aware and these risks could have the effects set forth above.

Risks Related to Our Business

We rely on one key customer for the majority of our revenues.

Our contracts with LUKOIL represented approximately 82.9%, 88.0% and 81.8%, of our total revenues for the years ended December 31, 2005 and 2006 and the six months ended June 30, 2007, respectively. Under our framework agreement with LUKOIL entered into on November 16, 2004 (the "LUKOIL Framework Agreement"), we are contractually obliged to provide a significant volume of drilling services to LUKOIL through December 31, 2009. According to the terms of the LUKOIL Framework Agreement, LUKOIL's contractual commitment to use our services is scheduled to end on December 31, 2009. The loss of LUKOIL as a customer will, or a reduction in its capital or operating expenditure budgets for whatever reason could, adversely affect demand for our services and reduce our revenues. Our contractual commitment to provide drilling services to LUKOIL significantly limits our ability to provide additional services to our other clients and participate in tenders for the provision of services to new clients. To the extent that industry consolidation continues within the oil and gas sector, sales attributable to LUKOIL may continue to increase, making us more dependent on this key customer relationship.

A substantial number of the onshore drilling rigs we own and operate are old and require us to undertake substantial expenditures in order to maintain them in fit-for-service condition.

Approximately 74.0% of the onshore drilling rigs that we own and operate are from 15 to 20 years old and approximately a further 6.0% of our drilling rigs are more than 20 years old. The age of these drilling rigs requires us to undertake substantial expenditures in order to maintain them in fit-for-service condition and to satisfy applicable Russian equipment certification requirements. As a result of an increased risk of failure of these rigs' key components, we sometimes are required to maintain spare sets of such components at our work sites. In Russia, pursuant to the Russian Law "On Industrial Safety", Regulations of the Federal Environmental, Technological and Nuclear Oversight Service ("Rostekhnadzor") No. 43, dated July 9, 2002, and No. 56, dated June 5, 2003, drilling rigs cannot be legally operated after the tenth anniversary of the date on which they were first put into operation unless an industrial safety audit of such rigs is performed by a licensed expert and the favorable opinion of such expert, which can be conditioned on our repairing or upgrading the relevant rig, is obtained and registered with Rostechnadzor. Such first and each subsequent extension is typically granted for a term of three years. If we are unable to procure sufficient numbers of new drilling rigs and/or modernize the existing drilling rigs by replacing their key components, our business, financial condition and results of operations could be materially adversely affected.

We may be unable to procure sufficient numbers of new drilling rigs and modernize sufficient numbers of existing drilling rigs to pursue our growth strategy or maintain our business at its current level.

Our ability to grow our onshore business or maintain it at its current level depends on our ability to procure sufficient numbers of new drilling rigs and modernize our existing drilling rigs. Currently, the global demand for new drilling rigs and rig modernization services substantially exceeds their supply. If, as a result, we are unable to procure a sufficient number of drilling rigs, we may be unable to pursue new business opportunities or meet the demand for our services from our existing clients and, consequently, our business, financial condition and results of operations could be materially adversely affected.

Our short- and mid-term ability to expand our offshore drilling business is negatively affected by the long lead time, currently up to two years, for construction of new offshore drilling platforms.

We may incur losses on our general contractor and turnkey contracts and such contracts could cause our revenues and earnings to fluctuate significantly.

Certain of our offshore and onshore drilling service contracts are made on a turnkey basis under which we agree to perform the contracted work for a fixed price from initial award through to completion. Under most of our onshore drilling contracts, we act as a general contractor and are contractually responsible for managing all aspects of the drilling process, including supervision of subcontractor services and procurement of consumable materials. The services we perform pursuant to such contracts generally involve complex design and engineering and significant procurements of equipment and supplies. Our costs and any gross profit realized on such contracts may vary from the estimated amounts on which such contracts were originally based. The reasons for this may include, among others:

- errors in cost calculation, design or estimated time for performance;
- difficulties in deliveries or availability of drilling rigs, equipment and supplies;
- schedule changes;
- changes in availability and cost of labor and material;
- inability to lock-in certain costs;
- failure of subcontractors to perform their contractual obligations; or
- other disruptions (such as delays in obtaining permits or prolonged adverse weather conditions).

Any or all of these factors may impact our ability to complete a project within budget or in accordance with the contracted schedule. If our cost estimate for a contract is inaccurate and we are unable to pass increased costs of services to our customers, or if we do not execute the contract within the agreed timeframe for whatever reason, cost overruns may cause the project to be less profitable than expected or cause us to incur losses. In particular, under several of our drilling contracts, our liability for failure to perform our drilling services in accordance with contract terms, in addition to direct damages, such as the cost of re-drilling a well, may include the value of the production lost by our clients as a result of such failure. Such damages could have a material adverse effect on our business, financial condition and results of operations. See "— Risks Related to Our Business — Our insurance coverage may be inadequate".

Our future business performance depends on our ability to win new contracts and to renew and extend existing contracts.

A substantial portion of our non-LUKOIL sales are derived directly or indirectly from contracts that are awarded on a tender basis. It is generally difficult to predict whether we will be awarded such contracts and, if awarded, whether they will proceed as originally planned. The tenders are affected by a number of factors outside our control, such as market conditions and governmental approvals required of our customers. In preparation for a tender, we assess our current capacity in terms of employees, equipment and the availability of third parties, such as subcontractors and suppliers, and, if awarded the contract, determine how to deploy our resources in order to perform our obligations under the contract. Often, we must pre-qualify to participate in tenders. If we are not selected or if the contracts we enter into are delayed and we are unable to execute the work we are contracted to perform within the timeframe we had agreed, our work flow may be interrupted, our contracts may not be renewed and our business, financial condition and results of operations may be adversely affected.

In our offshore drilling division, we do not expect operating and maintenance costs to necessarily fluctuate in proportion to changes in operating revenues. Operating revenues may fluctuate as a function of changes in dayrates and utilization which can be affected by various factors, such as adverse weather conditions. However, costs for operating a rig are generally fixed or only semi-variable regardless of the dayrate being earned, if any. Moreover, should "Astra" incur idle time between contracts, we typically will maintain full manning, and incur the associated costs, in order to prepare the rig for its next contract. In addition, as "Astra" is mobilized from one geographic location to another, our labor and other operating costs can vary significantly. As a result, the profitability of our offshore division is significantly dependent on our ability to maintain high utilization levels.

Our customers' exploration and production licenses may be suspended, amended or terminated prior to the end of their terms and our customers may be unable to obtain or maintain various permits and authorizations.

The Russian law No. 2395-1, "On Subsoil," dated February 21, 1992, as amended (the "Subsoil Law"), and regulations issued thereunder govern Russia's licensing regime for the exploration, development and production

of crude oil and gas. Our customers conduct their operations under numerous exploration and production licenses. The Subsoil Law provides that licenses may be suspended, restricted or terminated in the event of a failure to comply with license requirements or the Subsoil Law. The Subsoil Law also provides that license holders may renew licenses, so long as they are in compliance with their terms.

Our customers may be unable to, or may voluntarily decide not to, comply with certain license agreement requirements for some or all of these license areas. If the authorities find that our customers have failed to fulfill the terms of their licenses, permits or authorizations, or if our customers operate in their license areas in a manner that violates Russian law, they may impose fines on our customers or even suspend or terminate their licenses. Any suspension, restriction or termination of our customers' licenses could adversely affect our customers' operating results and financial condition and, in turn, could also affect the demand for our services.

We are subject to hazards customary for drilling operations, which could adversely affect our financial performance if we are not adequately indemnified or insured.

Substantially all of our operations are subject to hazards that are customary for oil and gas drilling operations, including blowouts, reservoir damage, loss of well-control, cratering, oil and gas well fires and explosions, natural disasters, pollution and mechanical failure. Certain of our operations are particularly dangerous. For example, a significant number of wells we drill in the Volga-Urals region are "sour wells," so called due to the presence of large quantities of hydrogen sulfide, or H_2S, which is an extremely toxic gas and exposure to which may result in serious injury or death. Our offshore operations also are subject to hazards inherent in marine operations, such as capsizing, grounding, collision and damage from severe weather conditions. Despite our adherence to applicable Russian and foreign safety regulations, any of these events could occur, which may result in damage to or destruction of drilling equipment, personal injury and property damage, suspension of operations or environmental damage. Our exposure to such risks also depends on the ability of our sub-contractors to properly perform their respective services in compliance with all applicable safety laws and regulations, including, for example, those relating to the use of radioactive sources during wireline logging operations. We have had accidents in the past demonstrating some of these hazards. For example, in January 2007, a work accident occurred at one of our sites which caused a workover rig weighing approximately 43 tonnes to overturn and sustain considerable damage. Moreover, in January 2005, we had a fatality in connection with the acid treatment of a well at a site in the Volga-Urals region. Generally, drilling contracts provide for the division of responsibilities between a drilling company and its customer. To the extent that we are unable to transfer such risks to our customers by contract, we generally seek protection through insurance. However, we are self-insured for certain losses, including business interruption and there can be no assurance that insurance will be available to cover any or all of these risks, or, even if available, that insurance premiums or other costs will not rise significantly in the future, so as to make costs of such insurance prohibitive. There is no assurance that such contractual re-distribution of liability or insurance will adequately protect us against liability from all of the consequences of the hazards and risks described above. The occurrence of an event not fully insured or indemnified against, or the failure of a customer or insurer to meet its indemnification or insurance obligations, could result in substantial losses.

We operate in a highly competitive industry and our failure to compete effectively could result in reduced profitability and loss of market share.

The markets for onshore drilling services in Russia and offshore drilling services in the Caspian Sea basin are highly competitive.

Competition in the Russian market comes mainly from:

- other current and former affiliates of Russian oil and gas majors;
- international providers of drilling services, such as the Siberian Geophysical Company, a subsidiary of Schlumberger, Nabors and Parker Drilling, among others, which employ modern technologies and provide high value-added drilling services;
- Russian independent drilling contractors, such as the Siberian Service Company and Integra; and
- numerous local independent service providers that tend to provide basic services at lower prices.

In the Caspian Sea, we compete with Transocean and the National Iranian Drilling Company.

Competitive factors in our markets include price, quality and technical proficiency and availability and mobility of drilling equipment. Our ability to enhance our existing services and technical proficiency and to increase the scale of our operations, while controlling our costs, is of primary importance to our ability to compete effectively.

Our current competitors and any additional competitors that may enter the Russian and Caspian Sea drilling services market may have greater financial, technical and other resources, broader experience, lower cost structures and better relationships in the oil and natural gas industries in Russia and the countries of the Caspian Sea basin. There can be no assurance that we will be able to maintain or increase our current market share in the future. In addition, more intense competition may force us to offer our services on less favorable terms and conditions. These competitive factors could have a material adverse effect on our business, financial condition and results of operations.

Changing technologies could increase competition, require us to make substantial additional investments in our business and could have a material adverse effect on our business, financial condition and results of operations.

We operate in an industry in which a significant technological change developed or obtained by our competitors could negatively impact the demand for our products and services. We must anticipate and adapt to these changes and introduce, on a timely basis, competitively priced services that meet changing industry standards and customer preferences. As new technologies are developed, we may have to implement these new technologies at a substantial cost in order to remain competitive. In addition, our competitors may have greater resources to develop or acquire new technologies and may implement them before we do, which may allow them to provide lower-priced or better-quality services. If this occurs, it could limit our ability to compete effectively and, as a result, decrease demand for our services, which could have a material adverse effect on our business, financial condition and results of operations.

Our results of operations are subject to seasonal fluctuations and are otherwise affected by severe weather conditions in the areas in which we provide our services.

Adverse climatic conditions, such as cold weather, ice and snow, and flooding in warmer months generally affect our ability to provide our services. As a result, revenues show seasonality and our business may be negatively affected during extremely cold periods in the winter and during periods when flooding prohibits access to remote oilfields. In winter, we are unable to provide our offshore drilling services in the northern part of the Caspian Sea due to ice. Due to the absence or poor condition of roads in certain regions where we operate, we are also unable to access certain of our onshore work sites by road in summer months, and we have to estimate our requirements for spare parts and consumable materials and store such parts and materials at such sites several months prior to anticipated drilling commencement dates.

We usually experience a reduction in revenues during the first and fourth quarter of the year reflecting the effect of extreme winter weather in the Russian oil and gas producing regions in which we operate and the impact of the contracting cycle. Our drilling services can be negatively affected by severe winter weather conditions in certain Russian regions that make oil and gas operations difficult or impossible during this period and by early winter thawing since large volumes of drilling equipment and drilling rigs situated in certain regions can only be transported during winter when the ground is sufficiently frozen to create access roads. If adverse conditions are unusually intense, occur at abnormal periods or last longer than usual, we may be unable to provide our services on schedule, which could result in penalties for delayed performance, or at all if we are prevented from transporting our drilling rigs and equipment to the next job, which could result in penalties and/or cancellation of our contracts by our customers, all of which can result in lost sales revenues.

The loss of any of our key officers could have a material adverse effect on our business.

The success of our business depends heavily on the continued services of our key officers, including Alexander Djaparidze and Alexander Bogachev. These officers possess industry specific skills and experience that are critical to the growth and operation of our business. While we have employment contracts with all of our key officers and have also provided incentives to them in order to remain with us, there is no guarantee that we will be able to retain their services. For example, according to Russian labor law, some members of senior management could resign from the Group by giving us as little as two weeks' notice. We are not insured against damage that may be incurred in case of loss or dismissal of our key specialists or officers. Moreover, we may be unable to attract and retain qualified personnel to succeed such officers. If we lost or suffered an extended interruption in the services of one or more such key officers, our business, financial condition and results of operations could be adversely affected.

We may be unable to attract and retain sufficient skilled personnel to enable us to operate profitably and expand our operations.

Demand for engineers, equipment operators and other technical and management personnel is currently high in Russia and the other countries in which we provide services and their supply is limited, particularly in the case of skilled and experienced engineers and field service personnel working in the remote regions and harsh climates of the oil and gas regions of Russia. Our growth and profitability may be limited by the scarcity of engineers, equipment operators and other technical and management personnel or by potential increases in compensation costs associated with attracting and retaining these employees. If our compensation costs increase or we cannot attract and retain skilled personnel, our profitability would be negatively impacted and our production capacity and growth potential would be impaired.

Our future success will also depend on our continued ability to attract, retain and motivate highly qualified technical, financial and accounting, marketing, promotional and managerial personnel. In particular, we need to hire additional accounting personnel with US GAAP expertise. The competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, and we may not succeed in our attempts to structure compensation packages in a manner consistent with the evolving standards of the Russian labor market. A failure to manage our personnel needs successfully could materially adversely affect our business, financial condition and results of operations.

Compliance with health, environmental and safety laws and regulations could increase our costs or restrict our operations.

Our operations and properties are subject to regulation by various governmental entities and agencies, including in connection with obtaining and renewing licenses and permits and ongoing compliance with existing laws and regulations. For example, our operations routinely involve the handling of significant amounts of chemical substances, some of which are classified as hazardous. Our subcontractors also use radioactive measuring instruments and explosive materials in certain of their operations. Environmental regulations include, for example, those concerning:

- the use of hazardous substances;
- the containment, transportation and disposal of hazardous substances, oilfield waste and other waste materials; and
- emission standards for operations.

For example, Russian environmental regulations require offshore drilling rigs operating in the Caspian Sea to be fitted with fish protection equipment. Our offshore drilling rig was retrofitted with such equipment in 2006.

The technical requirements of environmental laws and regulations are becoming increasingly complex and stringent and therefore more difficult and expensive to comply with. In addition, environmental, health and safety laws in Russia and the countries of the Caspian Sea basin are often unclear and contradictory, which makes it difficult for us to ensure compliance. If, in the future, we are required to incur material expenditures to comply with new and/or existing health, safety and environmental laws, this could restrict our ability to grow and materially adversely affect our business, financial condition and results of operations.

Regulatory authorities exercise considerable discretion in the issuance and renewal of licenses and permits, in monitoring licensees' compliance with the terms thereof and in interpreting and enforcing applicable laws and regulations. Future inspections by regulatory authorities may conclude that we have violated applicable laws or regulations. If we are unable to refute these conclusions or to remedy these violations, the regulatory authorities may impose fines, criminal and administrative penalties or severe sanctions, including the suspension, amendment or termination of our licenses and permits and compel us to cease certain of our business activities. The loss of any licenses or profits would have a material adverse effect on our business, financial condition and results of operations. See "— Risks Related to the Russian Federation — Legislative and Legal Risks".

Our ability to provide offshore drilling services in the Caspian Sea depends on our ability to continue to secure favorable customs treatment of the Astra rig by customs authorities in Russia, Kazakhstan and Turkmenistan.

We may be unable to secure appropriate customs treatment for the export and re-import of the Astra rig by customs authorities in Russia, Kazakhstan and Turkmenistan. In early 2007, the Russian Federal Customs Service (the "FCS") challenged our use of simplified export procedures with respect to the Astra rig. Currently, the FCS is investigating certain of our export/re-import practices relating to the Astra rig in the period from 1997 through 1999. If, in the future, we are unable to secure favorable customs treatment of the Astra rig, our business, financial condition and results of operations could be materially adversely affected.

We may be unable to conform our managerial, financial and operational practices to the standards of the international oil and gas drilling industry.

At the time of its acquisition by us in 2004, LUKOIL's onshore drilling business was managed as an internal division of a large Russian oil company in accordance with historical Russian management practices. We have since sought to bring our managerial, financial and operational practices into conformity with standard practices customarily followed within the international oil and gas drilling industry. However, such reformation poses significant challenges, including the following:

- adoption of dayrates, where applicable;
- adoption of health, safety and environmental standards consistent with the international oil and gas drilling industry;
- rationalization of administrative reporting and managerial control;
- realization of administrative synergies among the Moscow office, branches and regional offices of BKE, which among other effects may enable us to more efficiently utilize staff; and
- enhancement of overall productivity through better management and new technologies.

This reformation process may result in unforeseen difficulties which could require additional significant attention from management and increased capital expenditure. Further, we cannot be certain that the anticipated synergies and cost savings from this reformation will materialize or reach expected levels. If we are unable to implement such changes, our business, financial condition and results of operations may be materially adversely affected.

Our insurance coverage may be inadequate.

The insurance industry in the Russian Federation and other countries of the CIS where we operate is in the process of development, and many forms of insurance coverage common in developed markets are not yet generally available. Currently, we do not maintain insurance against lost profits resulting from a business interruption. In the event of drilling equipment failure or damage to our drilling facilities, we may experience loss of revenues due to the possible reduction of production which may require additional capital expenditure to repair or replace faulty equipment. Our insurance coverage may prove inadequate to satisfy future claims against us or to protect us against natural disasters, consequences of military actions, terrorist attacks, strikes, civil disorder, officially declared emergency situations, consequences of radioactive emission or operational catastrophes, which may have a material adverse effect on our business, financial condition and results of operations.

Work stoppages and other labor problems could adversely affect our business.

A significant number of our employees in the onshore drilling division are represented by trade unions. As of the date of this Prospectus, we had collective bargaining agreements that cover approximately 88.5% of the employees of our onshore drilling division. Although we have not experienced any labor actions, there is no assurance that a labor action by our employees will not occur in the future. A lengthy strike, other work stoppage or any other labor action by our employees could have a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected if our tax status changes or if relevant tax authorities challenge any aspect of our Group's structure.

We were incorporated under the laws of the Cayman Islands as an exempted company and, as such, for a period of 20 years, no law which is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to us and no such tax and no tax in the nature of estate duty or inheritance tax will be payable, either directly or by way of withholding, on our ordinary shares. Our directors currently intend to ensure that we continue to meet the conditions for the exempted company status and to conduct our affairs in such a manner that we are not regarded as a tax resident in any jurisdiction. However, if such status or our tax residence is successfully challenged by the relevant tax authorities, we may incur additional tax liabilities which could adversely affect our business.

After December 31, 2008, we may be subject to the requirement to present our financial statements under International Financial Reporting Standards as adopted by the EU or may be subject to additional reporting requirements, which may cause delays in the preparation of our financial information.

We currently prepare our financial statements in accordance with US GAAP. In December 2004, the European Parliament and Council of the European Union adopted Directive 2004/109/EC (the "Transparency Directive"). Following the implementation of the Transparency Directive, all companies with securities admitted to trading on a regulated market in the European Economic Area (except debt securities with minimum denominations of €50,000 or more), including us following the completion of the Offering, will be required to prepare and publish annual and semi-annual reports containing financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRS") or accounting standards determined to be equivalent to EU IFRS by the European Commission. On December 4, 2006, the European Commission published a decision in which it allowed issuers whose registered office is located outside the EU to apply US GAAP (or certain other generally accepted accounting principles) to their annual and semi-annual financial statements until financial years starting on or after January 1, 2009, and deferred the establishment of the equivalence definition and mechanism until 2008. Therefore, it is currently uncertain whether financial statements prepared under US GAAP will be considered equivalent (or equivalent subject to remedies) to EU IFRS after December 31, 2008. Consequently, from January 1, 2009 we may be required to prepare and publish our financial statements under EU IFRS or, if US GAAP financial statements are considered equivalent but subject to remedies, to prepare and publish supplementary information as required by the equivalence mechanism. We have not conducted an analysis of the expected impact of reporting under EU IFRS. As US GAAP currently differs in some respects from EU IFRS, applying EU IFRS to our consolidated financial statements may have a material impact on our reported results and financial position. Any requirements either to present financial statements under EU IFRS or present supplementary information in addition to US GAAP financial statements may require significant costs and may also cause delays in the preparation and publication of our results.

Risks Related to Our Industry

A substantial or extended decline in oil and gas prices could result in lower capital expenditures by the oil and gas industry thereby reducing demand for our services and decreasing our revenue.

Demand for our services depends significantly on the level of exploration, development and production activity and capital expenditures by oil and natural gas companies in our markets. Any prolonged reduction in oil and natural gas prices could depress the levels of oil and natural gas exploration, development and production activity. Even the expectation of lower long-term oil and natural gas prices by oil and gas companies may cause them to reduce or defer major capital expenditures given the long lead times of many large-scale exploration and development projects. Prices for oil and natural gas have been and are likely to continue to be subject to large fluctuations in response to relatively minor changes in the supply of, and demand for, oil and natural gas, market uncertainty and a variety of other factors that are beyond our control, including, among others:

- governmental regulations, including policies regarding the exploration, development and production of oil and natural gas reserves;
- changes in the environmental laws and regulations, including those relating to carbon dioxide emissions, and/or more stringent enforcement of existing environmental laws and regulation;
- increases in the promotion of, and public subsidies for, alternative fuels;
- changes in customer behavior relating to fuel efficiency and the use of natural gas;
- taxation of oil and natural gas and associated consumer products;
- global weather conditions and possible natural disasters;
- political, military, and socio-political conditions;
- available excess production capacity within OPEC and decisions by OPEC on production levels;
- level of oil production by non-OPEC countries;
- available crude oil refining capacity;
- the cost of producing and delivering oil and gas;
- the willingness of governments to allow oil and natural gas to be transported through their countries to third countries; and
- terrorist attacks on oil and natural gas installations.

A substantial or an extended decline in oil and natural gas prices could result in lower capital expenditures by our customers and materially adversely affect our business, financial condition and results of operations. At the same time, an increase in worldwide oil and natural gas prices may not necessarily result in an increase in capital expenditures and demand for our services.

Consolidation among oil and gas companies and among oilfield services providers may result in fewer potential customers of our services or in the termination of our existing contracts with customers or suppliers.

Oil and gas operators in the Russian Federation have undergone substantial consolidation in the last few years and additional consolidation is possible. Consolidation among oil and gas companies and among oilfield services providers may result in a smaller client base for us. Such consolidation may also lead to increased competition to secure contracts. Furthermore, mergers and acquisitions may result in the acquisition of one or more of our customers by an entity which has access to its own drilling division or which has established relations with one or more of our competitors. Similarly, a change of control of an oilfield or well serviced by us may lead to the early termination of our contracts in relation to that oilfield or project if the new owner chooses to work with one or more of our competitors. The termination of any of our contracts or a reduction in demand for our services as a result of industry consolidation may have a material adverse effect on our business, financial condition and results of operations.

Continuing increases in the costs associated with drilling may result in our customers re-acquiring in-house drilling divisions.

The recent trend towards the disposal of drilling divisions by a number of vertically integrated oil and gas companies may be reversed if the costs attributable to drilling continue to increase. Any resulting reduction in demand for our services could have a material adverse effect on our business, financial condition and results of operations.

The history and composition of the Russian oilfield services market make data collection and comparison difficult, and such data may be incomplete and/or subject to error.

The oilfield services business in Russia has undergone significant change in the last two decades. During the Soviet period, documentation concerning oilfield development was not recorded and monitored as stringently as is customary in other parts of the world. Additionally, both in-house drilling services divisions of major Russian oil and gas companies and independent drilling services contractors are reluctant to disclose information about their business and as a result, such data as, for example, information on their pricing and sales is not readily available in the public domain. Some independent drilling contractors are small and have extremely limited visibility or operate within an extremely limited geographical area resulting in information gaps about industry participants, particularly within an oil and gas region. There is also uncertainty regarding the ownership of assets. For example, inactive drilling rigs have been cannibalized to upgrade and repair other ageing rigs and record keeping is ambiguous. The total number of onshore drilling rigs in Russia reported in this Prospectus is an assumed number based on capacity, utilization and known drilling activity in each onshore oil and gas producing region of Russia. In the absence of publicly available information on a significant proportion of participants in the industry, many of whom are small and/or privately owned operators, or their asset base, investors should not place undue reliance on available data on market sizes and projected growth rates, including the market and competitive data presented in this Prospectus. Additional factors should be considered in assessing the usefulness of this data and in particular projected growth rates.

Fluctuations in the foreign currency exchange rates of the Russian ruble, as compared to the US dollar, may negatively impact our results of operations.

We are exposed to foreign currency exchange rate risks. The currency giving rise to these risks is primarily the Russian ruble. We use the Russian ruble for the majority of our operations, while the US dollar is our reporting currency. Foreign exchange gains and losses result from converting monetary assets and liabilities denominated in the Russian ruble into US dollar amounts at each balance sheet date. This includes any borrowings in a foreign currency. As at June 30, 2007, we had US$222.6 million of a total of US$347.4 million of our long and short-term debt denominated in the Russian ruble. In addition, the results of our operations are impacted by transactions entered into in currencies other than the Russian ruble, and a fluctuation in exchange rates will result in a change in the recognized revenues and expenses associated with such transactions. Furthermore, while the majority of our revenues are denominated in the Russian ruble, some of our costs, including those associated with purchases of foreign manufactured land rigs, are denominated in the US dollar and other currencies. Any significant foreign currency exchange rate fluctuations (both short- and long-term) could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Business Operations in Emerging Markets

Investors in emerging markets, such as Russia and other CIS countries, are subject to greater risks than investors in more developed markets, including significant political, legal and economic risks and risks related to fluctuations in the global economy.

Investors in emerging markets, such as Russia, should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant political, legal and economic risks. Emerging economies, such as the Russian and other CIS economies, are subject to rapid change and the information included herein may become outdated relatively quickly. Russia's economy, like other emerging economies, is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in Russia or other emerging economies could dampen foreign investment in these markets and adversely affect their economies. These developments could limit our access to capital and make execution of our growth strategy more difficult.

Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal, financial and tax advisors before making an investment in the GDRs.

Risks Related to the Russian Federation

Political and Social Risks

Political and governmental instability in Russia could materially adversely affect our business, financial condition and results of operations and the value of our GDRs.

Since 1991, Russia has sought to transform itself from a one party state with a centrally planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. In light of these conditions, the Russian public has largely supported increased centralized authority and renationalization and governmental control of key industries. In addition, a failure of salaries and benefits to keep pace with the rapidly increasing cost of living or changes in government-funded benefits or perceived unfairness in the distribution of wealth could lead to social unrest in the future. Low birth rates and life expectancies in Russia are expected to result in significant declines in the population over the next few decades. These declines, combined with increasing immigration, could pose significant risks to political and social stability in Russia.

The next State Duma and presidential elections are scheduled to be held in December 2007 and March 2008, respectively. The potential stagnation during the uncertain period leading up to these elections, as well as potential instability during the transition period, could negatively affect the economic and political environment in the near term. In addition, shifts in governmental policy and regulation in Russia may be less predictable than in many Western democracies. On September 12, 2007, President Putin dismissed the Russian government. Such changes in the Russian government, major policy shifts or lack of consensus between various branches of the Russian government and powerful economic groups could disrupt or reverse economic and regulatory reforms. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition and results of operations.

The immaturity of legal systems, processes and practices in the Russian Federation may adversely affect our business, financial condition and results of operations.

Risks associated with the legal systems of the Russian Federation include, to varying degrees: inconsistencies between and among laws, presidential decrees, edicts and governmental and ministerial orders and resolutions; conflicting local, regional, and federal rules and regulations; the lack of judicial or administrative guidance regarding the interpretation of the applicable rules; the untested nature of the independence of the judiciary and its immunity from political, social and commercial influences; the relative inexperience of jurists, judges and courts in interpreting recently enacted legislation and complex commercial arrangements; a high degree of unchecked discretion on the part of governmental authorities; substantial gaps in the regulatory structure due to delays in or absence of implementing regulations; bankruptcy procedures that are not well-developed and are subject to abuse; and a lack of binding judicial precedent. All of these weaknesses affect our ability to protect and enforce our legal rights, including rights under contracts, and to defend against claims by others.

The relatively recent enactment of many laws, the lack of consensus about the scope, content and pace of political and economic reform and the rapid evolution of legal systems in ways that may not always coincide with market developments have resulted in ambiguities, inconsistencies and anomalies and, in certain cases, the enactment of laws without a clear constitutional or legislative basis. Legal and bureaucratic obstacles and corruption exist to varying degrees in each of the jurisdictions in which we operate, and these factors are likely to hinder our further development. These characteristics give rise to investment risks that do not exist in countries with more developed legal systems. The developing nature of the legal systems in Russia and the other countries in which we operate could result in our business, financial condition and results of operations being materially adversely affected.

The reversal of reform policies or the implementation of government policies in Russia targeted at specific individuals or companies could harm our business as well as investments in Russia more generally.

Since President Putin took office as prime minister and then president in 1999, the political and economic situation in Russia has generally become more stable and conducive to investment. However, signs of a breakdown in the consensus among key governmental officials have raised questions about the direction of future economic reforms. Any significant struggle over the direction of future reforms, or the reversal of the reform program, could lead to deterioration in Russia's investment climate that might constrain our ability to obtain financing, limit our sales in Russia and otherwise harm our business and results of operations.

In 2003, Russian authorities arrested Mikhail Khodorkovsky and Platon Lebedev, key shareholders and managers of OAO NK Yukos ("Yukos"), then Russia's largest oil company by production, on tax evasion and related charges, and on May 31, 2005 they were each sentenced to eight years of imprisonment on these charges. Significant back tax claims have since been brought against Yukos, resulting in the auction initially of its major production subsidiary, OAO Yuganskneftegaz ("Yuganskneftegaz") and subsequently the majority of its other assets, and the effective destruction of Yukos. Yuganskneftegaz was acquired, indirectly, by OAO NK Rosneft, a state-owned oil company, resulting in the first effective re-nationalization of a significant company privatized in the 1990s. Some analysts contend that the arrests, destruction of Yukos and nationalization of Yuganskneftegaz evidence a willingness on the part of the Putin administration to reverse key political and economic reforms implemented in the 1990s, including certain privatizations. Other analysts, however, believe that these arrests were isolated events that relate to the specific individuals and companies involved and do not signal any deviation from broader political and economic reforms or a wider program of asset redistribution. For further discussion of recent activities by Russian tax authorities, see "— Legislative and Legal Risks — The taxation and customs system in Russia is subject to changes and inconsistencies".

Political, social and other conflicts create an uncertain operating environment that hinders our long-term planning ability and could adversely affect the value of our investments in Russia.

The Russian Federation is a federation of 85 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatization, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus creates uncertainties in our operating environment, which may prevent us from effectively and efficiently carrying out our business strategy.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the continuing conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighboring regions. Various armed groups in Chechnya have regularly engaged in guerrilla attacks in that area. Violence and attacks relating to this conflict have also spread to other parts of Russia, including terrorist attacks in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce in Russia, and could materially adversely affect our business, results of operations and financial condition.

Crime and corruption could disrupt our ability to conduct business.

The political and economic changes in Russia since the early 1990s have led, amongst other things, to reduced policing of society and increased lawlessness. In September and October 2006, the Deputy Chairman of the Central Bank and a well-known reporter were assassinated in what were allegedly contract killings. Organized criminal activity, particularly property crimes in large metropolitan centers, has reportedly increased significantly since the dissolution of the Soviet Union. In addition, the Russian and international media have reported high levels of corruption in Russia and elsewhere in the CIS. Press reports have also described instances in which government officials have engaged in selective investigations and prosecutions to further the interest of the government and individual officials or business groups. Moreover, certain members of the Russian media appear to have published biased articles in exchange for payment. Although we adhere to our own internal compliance procedures in order to counteract the effects of crime and corruption, illegal activities or demands of corrupt officials, allegations that we or our management have been involved in corruption, illegal activities or biased articles and negative publicity could materially adversely affect our ability to conduct our business, financial condition and results of operations.

Social instability could lead to labor and social unrest, renewed centralized authority or increased nationalism.

The failure of the Russian government and of many private enterprises to pay full salaries regularly, and the failure of salaries and benefits generally to keep pace with the increasing cost of living, could lead to labor and social unrest, increased support for centralized authority and a rise in nationalism. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to a strike that included blockading major railroads. In 2005, Russian pensioners organized street protests against government proposals to monetize in-kind benefits. These protests periodically blocked highways and streets in major Russian cities. In 2006, groups of individuals allegedly defrauded by various real estate investment schemes organized protests in cities and towns across Russia, including a hunger strike. The Russian government and both Houses of the Federal Assembly adopted resolutions in an attempt to satisfy the demands of the protesters. Such labor and social unrest could disrupt normal business operations, which also could materially adversely affect our business, financial condition and results of operations.

Economic Risks

Economic instability in Russia could adversely affect our business.

Since the dissolution of the Soviet Union in 1991, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- a weak banking system providing limited liquidity to domestic enterprises;
- a large number of loss-making enterprises that have continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- the growth of black and grey market economies;
- high levels of capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- high government debt relative to gross domestic product;
- hyperinflation;
- an unstable currency;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

The Russian economy has been subject to abrupt downturns. In particular, in August 1998, the Russian government defaulted on its ruble-denominated securities, the Central Bank stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and the inability of Russian issuers to raise funds in the international capital

markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of August 1998, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies.

Recent favorable trends in the Russian economy — such as the increase in gross domestic product, a relatively stable ruble and a reduced rate of inflation — may not continue or may be abruptly reversed. For example, during 2005 economic growth slowed and consumer price inflation remained high. Furthermore, consumer price inflation in Russia increased in the first part of 2006. In addition, because Russia produces and exports large quantities of oil and natural gas, the Russian economy is particularly vulnerable to fluctuations in the price of oil and natural gas on the world market, and a decline in the price of oil or natural gas could significantly slow or disrupt the Russian economy. The occurrence of any of these events could materially adversely affect Russia's economy and our business in the future.

The banking system in Russia remains underdeveloped, and another banking crisis could place severe liquidity constraints on our business.

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretation and inconsistent application. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind internationally accepted norms. Banking supervision is also often inadequate, as a result of which many banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to weakened capital adequacy and the insolvency of some banks.

Recently, there has been a rapid increase in lending by Russian banks, which may be accompanied by a deterioration in the credit quality of the loan portfolio of those banks. In addition, a robust domestic corporate debt market is leading Russian banks to hold increasingly large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of the assets of Russian banks. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including Russian corporate defaults that may occur during any such market downturn or economic slowdown. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April to July 2004, the Russian banking sector experienced further serious turmoil. As a result of various market rumors and certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the inter-bank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the Russian government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. There are currently only a limited number of creditworthy Russian banks, most of which are located in Moscow. We hold funds in a number of Russian banks, including Moscow International Bank and AO Bank "Petrocommerce". However, the bankruptcy or insolvency of one or more of these banks could adversely affect our business. Another banking crisis, or the bankruptcy or insolvency of any of the banks which holds our funds, could result in an increase in the cost of funding of our business or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity.

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail and road networks, power generation and transmission, communications systems and building stock. For example, in May 2005, an electricity blackout affected much of Moscow for one day, disrupting normal business activity. During the winter of 2000 and 2001, electricity and heating shortages in Russia's far eastern Primorye region seriously disrupted the local economy. In August 2000, a fire at the main transmission tower in Moscow interrupted television and radio broadcasting for weeks. The Russian government is actively pursuing plans to reorganize its rail, electricity and telephone systems, as well as the public utilities. Any such reorganizations may result in increased charges and tariffs while failing to generate the anticipated capital investment that is needed to repair, maintain and improve these systems. The deterioration of physical infrastructure in Russia harms its national economy, disrupts the transportation of goods and supplies, adds costs to doing business and can interrupt business operations. Further deterioration in the physical infrastructure could have a material adverse effect on our business, financial condition or operating results.

Deterioration of Russia's relations with other countries in which we operate could disrupt normal business activity.

Since Mr. Putin became President in 1999, Russia has attempted to reassert its geopolitical interests in what had previously been Republics of the USSR, some of which are current and potential future markets for our services and products. On several occasions, this has resulted in the deterioration of Russia's relations with such countries. For example, in the fall of 2006, acting in response to arrests in Tbilisi, Republic of Georgia, of alleged Russian foreign intelligence officers by Georgian authorities, Russia imposed a comprehensive economic embargo on Georgia, which included a ban on all auto, air and rail travel to and from Georgia, restrictions on money transfers to and from Georgia and the deportation of hundreds of Georgian citizens who were alleged to have been residing in Russia illegally. The Russian Law "On Special Economic Measures", adopted subsequent to the Georgian embargo, grants the President of Russia, acting only upon recommendation of the Russian Security Council, authority to both (i) impose restrictions or prohibit dealings with foreign states and/or foreign citizens and (ii) impose obligations to perform specific activities in furtherance of the adopted economic measures. If Russia were to impose a similar embargo or adopt any of the restrictive economic measures contemplated by the Law "On Special Economic Measures" with respect to the countries in which we currently operate and/or plan to operate in the future, our business, financial condition, results of operations and the price of the GDRs could be materially adversely affected. Similarly, if other countries were to impose similar measures on Russia, including, for example, restrictions on financing transactions or on the listing of companies with substantial assets in Russia, our business, financial condition and results of operations could be materially adversely affected.

Legislative and Legal Risks

Weaknesses relating to the Russian legal system and legislation create an uncertain environment for investment and business activity in the region and thus could have a material adverse effect on our business.

Russia is still developing the legal framework required to support a market economy. The risks described above under "— Risks Related to the Russian Federation — Political and Social Risks — The immaturity of legal systems, processes and practices in the Russian Federation may adversely affect our business, financial condition and results of operations", create uncertainties with respect to the legal and business decisions that we make, many of which do not exist in countries with more developed market economies.

Additionally, the independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is less than complete. The court system is understaffed and underfunded; judges and courts are generally inexperienced in the areas of business and corporate law; judicial precedents generally have no binding effect on subsequent decisions; and most court decisions are not readily available to the public. Enforcement of court judgments can, in practice, be difficult. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims, and law enforcement agencies do not always enforce or follow court judgments. We may be subject to such claims and may not be able to receive fair trials or to enforce any judgments in our favor.

These uncertainties also extend to property rights. During its transition from a centrally-planned economy to a market economy, Russia has enacted laws to protect private property against expropriation and nationalization. However, due to a lack of experience in enforcing these provisions and to political pressure, Russian courts might not enforce these protections in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, any of our entities' assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on our business, financial condition and results of operations.

Failure to comply with existing laws and regulations or the findings of government inspection, or increased government regulation of our operations, could result in substantial additional compliance costs or sanction.

Our operations and properties are subject to regulation by various government entities and agencies, in connection both with obtaining and renewing various licenses and permits and with continuing compliance with existing laws and regulations. Regulatory authorities exercise considerable discretion in the issuance and renewal of licenses and permits, in monitoring licensees' compliance with the terms thereof, and in interpreting and enforcing applicable laws and regulations. Russian authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties. Any such future inspections may conclude that we have violated applicable laws or regulations, and we may be unable to refute such conclusions or to remedy such violations. Such conclusions may result in the imposition of fines, penalties or more severe sanctions, including the suspension, amendment or revocation of our licenses and permits, a requirement that we cease certain of our

business activities or criminal and administrative penalties could be instituted against our officers, each of which could materially adversely affect our business, financial condition and results of operations. In the past, we have violated certain certification requirements applicable to our old land drilling rigs by continuing to operate such rigs past the relevant date of their mandatory industrial safety audit. Although we have managed to rectify such violations once they have been identified by regulatory authorities, there is no assurance that such violations will not occur in the future and will not lead to the loss of use of some of our land drilling rigs.

Changes in Russian securities laws may make it more difficult for non-Russian companies with Russian assets to list their shares outside of Russia and the unfavorable opinion of the Russian state authorities of the Offering may result in arbitrary government action against our Russian subsidiaries.

The FSFM has publicly expressed its disapproval of listings of shares of non-Russian companies in circumstances where the main assets of the companies are shares or other interests in Russian companies. The Russian Law "On the Securities Markets" has recently been amended to allow foreign issuers to issue Russian depositary receipts with respect to their shares. Although current Russian legislation does not prohibit the listing of GDRs representing the Shares on the London Stock Exchange, there can be no assurance that the FSFM will not seek to take selective, arbitrary or unlawful governmental action against us or our Russian subsidiaries.

Unlawful, selective or arbitrary government action may have an adverse effect on our business or the trading price of the GDRs.

Governmental authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and in a manner that is contrary to law or influenced by political or commercial considerations. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate the issuances or registrations or to void transactions, seemingly for political purposes. Standard & Poors has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups". In this environment, our competitors could receive preferential treatment from the government, potentially giving them a competitive advantage. Unlawful, selective or arbitrary governmental action, if directed at our operations in Russia, could lead to our business, financial condition and results of operations being materially adversely affected.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our Russian subsidiaries and our past transactions and those of our Russian subsidiaries could be challenged under mandatory provisions of Russian law, negatively affecting our business, financial conditions and results of operations.

The Russian Civil Code, the Federal Law "On Joint Stock Companies" and the Federal Law "On Limited Liability Companies" generally provide that shareholders in a Russian joint stock company or members of a limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person (an "effective parent") is capable of determining decisions made by another (an "effective subsidiary"). The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to act or fail to act, knowing that such action or inaction would result in losses. Until recently, there were no decisions of the Russian courts based on this provision of the law. However, on May 23, 2007, the Federal Arbitrazh Court of the Ural region, reviewing the case on appeal, adopted a decision where it imposed liability on the shareholders of the bankrupt subsidiary. Accordingly, in our position as an effective parent, we could be liable in some cases for the debts of our effective subsidiaries in Russia.

The taxation and customs system in Russia is subject to changes and inconsistencies.

The discussion below provides general information regarding Russian taxes and customs duties and is not intended to be inclusive of all issues. Investors should seek advice from their own advisors as to these tax and customs matters before investing in the GDRs.

Historically, the system of tax collection in Russia was relatively ineffective, resulting in the continual imposition of new taxes in an attempt to raise state revenues. The primary current body of tax law, the Russian Federation Tax Code and the Russian Federation Customs Code (together the "Codes"), have been in force for a relatively short period of time (compared to tax and customs laws in more developed market economies), and the Russian government's implementation and application of these tax and customs laws is often unclear or inconsistent. While the advent of the Codes has improved the situation somewhat, there can be no assurance that the Codes will not be changed in the future in a manner adverse to the stability and predictability of the tax and customs systems. These factors, plus the potential for state budget deficits, raise the risk of a sudden imposition of additional taxes and custom duties which could adversely affect us.

Generally, taxes and duties payable by Russian companies are substantial and numerous. These taxes and duties include, among others, income taxes, value-added tax ("VAT"), excise taxes, custom duties on importation of goods and services, social and pension contributions, property tax and other taxes.

Russian tax and customs laws and regulations are subject to frequent change, varying interpretation and inconsistent enforcement. In some instances, despite the potential for challenge on constitutionality grounds, Russian tax and customs authorities apply changes to the laws retroactively, issue claims for periods which, under the statute of limitations, have expired and review the same periods on multiple occasions. In addition to the usual tax and customs burden imposed on Russian companies, these conditions complicate tax planning and related business decisions. In addition, tax laws are unclear with respect to deductibility of certain expenses.

Accordingly, few clear precedents with regard to the interpretation of these laws have been established. Often, differing opinions regarding interpretation of the laws exist both between companies subject to such taxes and customs duties and within Russian government ministries and organizations, such as the former Ministry of Taxes and Duties (the functions of which have since March 2004 been divided between the Federal Tax Service and the Ministry of Finance) and the former State Customs Committee (the functions of which have since March 2004 been transferred to the Federal Customs Service) and their various inspectorates, creating uncertainties and areas of conflict.

Generally, tax declarations remain open and subject to inspection by tax authorities for a period of three years following the relevant tax year. The fact that a year has been reviewed by tax authorities does not preclude the tax authorities from carrying out further review of that year, or any tax declaration applicable to that year, during the three-year period. In addition, recent changes to the Russian Federal Tax Code permit an extension of the statute of limitations on a similar basis. Because none of the relevant terms are defined, the tax authorities may have broad discretion to argue that a taxpayer has "obstructed or hindered" an inspection and ultimately seek penalties beyond the three-year term.

This uncertainty could expose our Russian subsidiaries to significant unanticipated taxes, fines and penalties and enforcement measures despite our best efforts at compliance, which could result in a greater than expected tax burden.

We and our non-Russian subsidiaries are generally considered to be non-residents of Russia for tax purposes. Although we believe that we conduct our operations in accordance with applicable requirements, there can be no assurance that Russian tax authorities will not deem that we or any of our non-Russian subsidiaries have a permanent establishment in Russia as a result of our activities or the activities of our subsidiaries, the exercise of management and control from within Russia or the physical presence of our or our non-Russian subsidiaries' CEO(s) in Russia. There are instances where foreign companies that perform holding or finance functions and are managed and controlled from Russia have been challenged by Russian tax authorities as having a permanent establishment in Russia. Such or similar challenge to our operations could result in us or one or more of our non-Russian subsidiaries being subject to Russian profits tax computed under Russian tax principles and Russian income tax withholding being assessed on interest or dividends (including dividends payable to GDR holders) and certain other payments made from such companies.

The foregoing conditions create tax and customs risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations,

including management resources. There can be no assurance that current taxes and customs duties will not be increased or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. In addition to our regular tax and customs burden, these risks and uncertainties complicate our tax and customs planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance, and our business, financial conditions, results of operations or the trading price of the GDRs could be materially adversely affected.

We could face large and perhaps arbitrary tax claims.

Since 2003, the Russian Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has aggressively reviewed certain Russian companies' use of tax optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. For example, the Federal Tax Service determined that Yukos owes over US$28.0 billion in back taxes and related penalties, and, in December 2004, Yukos' major production subsidiary, Yuganskneftegaz, was auctioned in partial settlement of these obligations. In addition, the press has reported significant claims for back taxes and related penalties against other oil companies including TNK-BP, telecommunications companies, including OJSC Vimpelcom, and other major companies.

In March 2005, President Putin announced that the government was considering plans to reform the system of tax collection and administration. However, in April 2005, the back tax claim against TNK-BP for 2001 increased by RUR 22 billion, bringing the total claim against TNK-BP for 2001 to RUR 26 billion, and Sibneft, another oil company, received a back tax claim for RUR 21 billion. The Federal Tax Service could become more aggressive in respect of future tax audits, which may have an adverse effect on our business, financial condition and results of operations could be materially adversely affected.

Risks Related to the Offering

Because there has been no prior active public trading market for the GDRs, the Offering may not result in an active or liquid trading market for the GDRs, and their price may be highly volatile.

Before the Offering, there has been no public trading market for the GDRs or for our shares. Although the GDRs will be admitted to trading on the London Stock Exchange, an active, liquid trading market may not develop or be sustained after this Offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an actual liquid trading market for the GDRs does not develop, the trading price of the GDRs may be more volatile and it may be difficult to complete a buy or sell order for the GDRs.

The trading prices of the GDRs may be subject to wide fluctuations in response to many factors that are unrelated to us or our performance, including, among others:

- variations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by our competitors;
- changes in governmental legislation or regulation;
- general economic conditions within our business sector or in Russia and the other emerging markets in which we operate; and
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges of stocks of companies in Russia and the other emerging markets in which we operate.

In addition, the trading price of the GDRs may decline below the Offer Price, which will be determined by the results of the book-building exercise being conducted by the Managers.

The Shares underlying the GDRs are not and will not be listed and may be illiquid.

Unlike many other GDRs traded on the London Stock Exchange, the Shares underlying the GDRs are neither listed nor traded on any stock exchange, and we do not intend to apply for the listing or admission to trading of our shares on any stock exchange. As a result, a withdrawal of Shares by a holder of GDRs, whether by election or due to certain events described under "Terms and Conditions of the Global Depositary Receipts", will result in that holder obtaining securities that are significantly less liquid than the GDRs, and the price of those Shares may be discounted as a result of such withdrawal.

Holders of GDRs may face difficulties in protecting their interests because we are incorporated under the laws of the Cayman Islands.

Our corporate affairs are governed by our memorandum of association (the "Memorandum of Association"), our articles of association (the "Articles of Association") and by the Companies Law (2007 Revision) (the "Companies Law") and the common law of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as under statutes or judicial precedent in existence in many onshore jurisdictions. Therefore, you may have more difficulty in protecting your interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in an onshore jurisdiction due to the comparatively less developed nature of Cayman Islands law in this area.

Cayman Islands law does not specifically provide for shareholder appraisal rights on a merger or consolidation of a company. This may make it more difficult for you to assess the value of any consideration you may receive in a merger or consolidation or to require that the offeror give you additional consideration if you believe the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies such as ours have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders of the company. Our directors have discretion under our Articles of Association to determine whether or not, and under what conditions, its corporate records may be inspected by the shareholders, but are not obliged to make them available to the shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against the board of directors. Our Cayman Islands counsel is not aware of any reported class action or derivative action having been brought in a Cayman Islands court.

Provisions of our Articles of Association and Cayman Islands corporate law may discourage a takeover, which could adversely affect the trading price of the GDRs.

Although we currently have not issued any preferred shares, our Articles of Association permit our Board of Directors to issue preferred shares from time to time, with such rights and preferences as they consider appropriate. Our Board of Directors could authorize the issuance of preferred shares with terms and conditions and under circumstances that could have the effect of discouraging a takeover or other transaction.

Cayman Islands law does not provide for mergers as that expression is understood in many other jurisdictions. While Cayman Islands law does have statutory provisions that provide for the reconstruction and amalgamation of companies, the procedural and legal requirements necessary to consummate these transactions are more rigorous and take longer to complete than the procedures typically required to consummate a merger in such other jurisdictions. Under Cayman Islands law and practice, an amalgamation must be approved by a majority of each class of a company's shareholders, who must also represent 75.0% of the total value of such class. The amalgamation must also be approved by a majority of each class of the company's creditors, who must also represent at least 75.0% of the total value of such class of creditors. These shareholder and creditor votes must be held at a meeting or meetings convened for that purpose. The convening of these meetings and the terms of the amalgamation must also be sanctioned by the Grand Court of the Cayman Islands. If a dissenting shareholder challenges the amalgamation, the court will only approve it if it is satisfied that:

- the statutory provisions as to majority vote have been complied with;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such as a businessman would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

You may have limited recourse against us and members of our directors and senior management because we generally conduct our operations outside of the United States and the United Kingdom and certain of our directors and most of our senior managers reside outside of the United States and the United Kingdom.

Our presence outside the United States and the United Kingdom may limit your legal recourse against us. We are a company incorporated in the Cayman Islands. Virtually all of our assets are located outside of the

United States, the United Kingdom and the Cayman Islands and are principally located in the Russian Federation. In addition, all but five of our directors and senior managers reside or are located outside of the United States and the United Kingdom. As a result, you may not be able to effect service of process within the United States and the United Kingdom upon us or our directors and senior managers, or to enforce judgments obtained against us or our directors and senior managers in foreign jurisdictions. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated on US or English securities laws.

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement and by applicable provisions of Cayman Islands law.

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement and relevant requirements of our Articles of Association and Cayman Islands law.

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by GDRs only in accordance with the provisions of the Deposit Agreement relating to the GDRs and relevant requirements of our Articles of Association and Cayman Islands law. There are, therefore, practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them.

For example, our Articles of Association require us to notify shareholders at least seven days in advance of any meeting. Shareholders will receive notice of general meetings directly from us and will be able to exercise their voting rights either by attending the meeting in person or by voting by proxy. GDR holders, in comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreement, we will provide that notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, if requested by us in writing in a timely manner and at our expense, and provided there are no English or Cayman Islands legal prohibitions (including, without limitation, the listing rules and the prospectus rules of the Financial Services Authority and the admission and disclosure standards of the London Stock Exchange), to distribute to GDR holders notice of the meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by GDR holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Shares represented by the GDRs they hold. Due to this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for Shareholders. GDRs for which the Depositary does not receive timely voting instructions will not be voted. In addition, GDR holders may not exercise voting rights in respect of fractional entitlements.

There can be no assurance that holders and beneficial owners of GDRs will (i) receive sufficient notice of general meetings to enable the timely return of voting instructions to the Depositary, (ii) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions (as discussed below) or (iii) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action where the holder or beneficial owner has voted against any proposed resolution, abstained from voting or not given voting instructions. See "Terms and Conditions of the Global Depositary Receipts" for a description of the voting rights of GDR holders.

Moreover, GDR holders will not be able to instruct the Depositary to introduce proposals for the agenda of general meetings, request that a general meeting be called, nominate candidates for our Board of Directors or otherwise exercise the rights of minority shareholders arising under our Articles of Association or applicable provisions of Cayman Islands law. If GDR holders wish to take such actions, they must request in a timely manner that their GDRs be cancelled and take delivery of the underlying Shares and thus become the owner of the Shares on our share register.

Future sales of our shares could adversely affect the price of the GDRs.

Sales of a substantial number of our shares in the market after this Offering, or the possibility that these sales may occur, could significantly affect the market price for our GDRs. These sales, or the possibility that these sales may occur, could also make it more difficult for us to sell our shares or other equity securities in the future.

Our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries.

Because we are a holding company, our ability to pay dividends depends primarily upon receipt of sufficient funds from our subsidiaries. Furthermore, the payment of dividends by our subsidiaries and/or our ability to

repatriate such dividends may, in certain instances, be subject to statutory restrictions, including currency control laws and regulations, retained earnings criteria, and covenants in our subsidiaries' financing arrangements and are contingent upon the earnings and cash flow of those subsidiaries. Our ability to pay dividends may be further adversely affected by the fluctuations of the exchange rate of the US dollar, our reporting currency, and the Russian ruble, the currency in which the majority of our revenues are denominated. Any inability on the part of our subsidiaries to pay dividends would negatively affect the amount of funds available to us to pay dividends.

You will experience immediate and substantial dilution.

The Offer Price of the GDRs is substantially higher than the net book value per GDR. That is, holders of GDRs will contribute ●% of our total book equity capitalization as at the date of the Offering, but will own only ●% of our total equity outstanding.

THE OFFERING

The Company	Eurasia Drilling Company Limited, a Cayman Islands exempted company incorporated with limited liability.
Selling Shareholders	●
The Offering	The Offering comprises (i) an offer of Shares in the form of GDRs by the Company to raise gross proceeds of US$450 million; (ii) an offer of Shares in the form of GDRs by certain shareholders to raise gross proceeds of US$215 million; and (iii) an offer of 2,052,750 Shares in the form of GDRs by certain other shareholders. In addition, the Company has granted the Lead Managers an option to acquire Shares in the form of GDRs in an amount up to 15% of the base offer size to cover over-allotments, if any. The GDRs are being offered to QIBs in the United States under Rule 144A and to institutional investors outside the United States and the Russian Federation in reliance on Regulation S.
Over-Allotment Option	The Company has granted an Over-Allotment Option to the Lead Managers, exercisable within 30 days after the announcement of the Offer Price, to purchase up to an additional ● Shares in the form of GDRs solely to cover over-allotments, if any, in the Offering. See "Subscription and Sale".
Offer Price Range	The indicative Offer Price Range is between US$20.80 per GDR and US$27.20 per GDR. The actual offer price (the "Offer Price") may be set above, below or within the Offer Price Range.
Closing Date	Expected to be on or about ● 2007.
The GDRs	Each GDR will represent one Share. The GDRs will be issued and delivered by the Depositary pursuant to the Deposit Agreement. The Rule 144A GDRs will be evidenced by the Rule 144A Master GDR and the Regulation S GDRs will be evidenced by the Regulation S Master GDR. See "Summary of Provisions Relating to the GDRs while in Master Form". GDRs representing ● Shares will initially be created for the purposes of the Offering. Pursuant to the Deposit Agreement, the Shares represented by the GDRs will be held by The Bank of Nova Scotia Trust Company (Bahamas Limited), as Custodian, for the benefit of the Depositary and for the further benefit of the holders and beneficial owners of the GDRs. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. See "Terms and Conditions of the Global Depositary Receipts". Subject to the terms of the Deposit Agreement, interests in GDRs represented by the Regulation S Master GDR may be exchanged for interests in the corresponding number of GDRs represented by the Rule 144A Master GDR and vice versa.
The Shares	As of the date of this Prospectus, the Company's authorized share capital is 250,000,000 ordinary shares, each with a par value of US$0.01, of which 125,000,000 ordinary shares have been issued. The Shares are subject to applicable provisions of Cayman Islands law and regulation and our Memorandum of Association and Articles of Association and have the rights described under "Description of Share Capital and Corporate Structure".
Depositary	JPMorgan Chase Bank, N.A.
Lock up	The Company and certain of our shareholders may not, and will procure that their respective subsidiaries, other affiliates and any person acting on its or their behalf (other than the Managers in the case of the Company) do not, for a period commencing on the date of

	the Underwriting Agreement and ending 180 days, or, with respect to Alexander Yu. Djaparidze, 360 days, after the Closing Date (i) issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend grant options over or otherwise dispose of (or publicly announce any of the foregoing), directly or indirectly, any Shares, GDRs or certain other securities whose value is derivative of the Shares or GDRs or (ii) enter into transactions with a similar effect to any of the foregoing, subject to certain exceptions or without the prior written consent of the Lead Managers.
Voting Rights	The Depositary will endeavor to exercise on behalf of holders of GDRs, at any meeting of holders of the Shares of which the Depositary receives timely notice, the voting rights relating to the Shares underlying the GDRs in accordance with instructions it receives from holders of GDRs. The Company will notify the Depositary of any resolution to be proposed at any general meeting of the Company.
Dividends	Holders of Shares, including the Depositary, will be entitled to receive amounts (if any) paid by us as dividends on the Shares. See "Dividend Policy".
Taxation	For a discussion of certain UK, US and Cayman Islands tax consequences of purchasing and holding the GDRs, see "Material Tax Considerations".
Use of Proceeds	After deduction of underwriting commission fees and expenses relating to the Offering, the net proceeds that we will receive from the Offering will be US$● (assuming no exercise of the Over-Allotment Option). If the Over-Allotment Option is exercised in full, we will receive net proceeds of the Offering in the amount of US$●. We intend to use the net proceeds from the Offering primarily to (i) repay to LUKOIL US$34.3 million (plus accrued interest) owed in connection with the purchase of BKE, (ii) acquire drilling and workover rigs and refurbish existing drilling rigs, (iii) fund strategic acquisitions, (iv) repay certain of our financial indebtedness, (v) make additional capital expenditures and (vi) fund working capital.
Listing and Trading	Application has been made (i) to the Financial Services Authority for a block listing of up to ● GDRs, consisting of up to ● GDRs to be issued on or about the Closing Date, up to ● additional GDRs to be issued pursuant to the Over-Allotment Option, if exercised, and up to ● additional GDRs which may be issued from time to time against the deposit of Shares with the Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities and in particular on the regulated market segment of the IOB. Application has also been made to have the Rule 144A GDRs designated eligible for trading in PORTAL. The Company expects that conditional trading through the IOB will commence on a "when and if issued" basis on or about ● 2007, and unconditional trading through the IOB will commence on or about ● 2007. All dealings in the GDRs prior to the commencement of unconditional trading will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. **The Shares have not been, and are not expected to be, listed on any stock exchange.**

Payment and Settlement	Application will be made to have the Rule 144A GDRs, evidenced by the Rule 144A Master GDR, accepted for clearance through DTC and the Regulation S GDRs, evidenced by a Regulation S Master GDR, accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg. The Company expects that payment and delivery of the GDRs will be made through the facilities of DTC, with respect to the Rule 144A GDRs, and Euroclear and Clearstream, Luxembourg, with respect to the Regulation S GDRs, on or about ● 2007. Upon acceptance by DTC, a single Rule 144A Master GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Regulation S Master GDR will be registered in the name of BNP Paribas Securities Services, Luxembourg branch, as common depositary for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, Luxembourg, as applicable.
Clearance and security numbers	The security identification numbers for the GDRs are as follows: Rule 144A GDRs: ISIN: US29843U1034 Common Code: 032497373 CUSIP Number: 29843U103 US SEDOL: B289L43 LDN SEDOL: B289JY9 Regulation S GDRs: ISIN: US29843U2024 Common Code: 032497527 CUSIP Number: 29843U202 SEDOL: B289L09 London Stock Exchange GDR trading symbol: EDCL PORTAL identification number: P29843U103
Risk Factors	Prospective investors should consider carefully certain risks discussed under “Risk Factors”.

USE OF PROCEEDS

After deduction of underwriting commissions, fees and expenses relating to the Offering, we will receive net proceeds from the Offering of US$● (assuming no exercise of the Over-Allotment Option). If the Over-Allotment Option is exercised in full, we will receive net proceeds of the Offering in the amount of US$●.

We intend to use the net proceeds from the Offering to:

- repay the balance of the original purchase price to LUKOIL for the purchase of LUKOIL Drilling (now BKE) in the principal amount of US$34.3 million plus accrued interest at 6.0% from January 1, 2007 until the date of payment. If the principal amount were paid on November 30, 2007, the interest would be US$1.9 million to be paid in rubles at the exchange rate of the Central Bank on November 29, 2007;
- acquire drilling and workover rigs and refurbish existing drilling rigs; and
- fund strategic acquisitions.

We intend to use any remaining funds to (i) repay certain of our existing financial indebtedness, (ii) make additional capital expenditures and (iii) fund working capital.

The Selling Shareholders, after deduction of underwriting commissions will receive net proceeds from the Offering of US$● million. We will not receive any of the proceeds from the sale of GDRs being offered by the Selling Shareholders.

DIVIDEND POLICY

As a holding company, the level of our income and our ability to pay dividends depend primarily upon the receipt of dividends and distributions from our subsidiaries. The payment of dividends by our subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and the ability of our subsidiaries to make, in accordance with relevant legislation, company law, exchange controls and contractual restrictions, dividend payments and other types of distributions to us.

We may pay dividends out of profits, which include net earnings and retained earnings from prior years, and out of share premium reserve. To the extent that we declare and pay dividends, owners of Shares and GDRs on the relevant record date will be entitled to receive dividends payable in respect of Shares, and Shares underlying the GDRs, subject to the terms of the Deposit Agreement.

For the years ended December 31, 2005 and 2006, we declared dividends in the amounts of US$1.35 million, or US$.01 per share, and US$3.0 million, or US$.02 per share, respectively, on a post-share split basis. See Note 19 to the Interim Consolidated Financial Statements. The dividends for the year ended December 31, 2005, in the amount of US$1.35 million were paid in US dollars in May 2006. The dividends for the year ended December 31, 2006, in the amount of US$3.0 million were paid in US dollars in December 2006.

In July 2007, we declared a dividend in the amount of US$10.0 million, or US$.08 per share, on a post-share split basis, which was paid in July 2007. Investors in the Offering will not be entitled to this dividend.

In August 2007, we adopted a dividend policy according to which we expect to declare and pay dividends of 5.0% to 10.0% of annual net profit, as calculated under US GAAP. We expect to declare and pay such dividends annually beginning with the results for the year ending December 31, 2008.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt and capitalization as at June 30, 2007, on an actual basis and as adjusted basis to give effect to the issuance of • Shares in the Offering (assuming exercise of the Over-Allotment Option in full). You should read the data set forth below in conjunction with "Use of Proceeds", "Selected Consolidated Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements, and the accompanying notes thereto, included elsewhere in this Prospectus.

	At June 30, 2007	
	Actual	As Adjusted for the Offering
	(in thousands of US$)	
Cash and cash equivalents	19,461	
Short-term debt (including current portion of long-term debt)	108,273	
Total long-term debt	239,148	
Stockholder's equity:		
Common stock[1]	50	
Additional paid-in capital	35,460	
Retained earnings	197,856	
Accumulated other comprehensive income/(expense)	9,897	
Total stockholders' equity	243,263	
Total capitalization	610,145	

(1) As of the date of this Prospectus, the Company's authorized share capital is comprised of 250,000,000 ordinary shares with par value of US$0.01 per share, of which 125,000,000 shares are issued and outstanding.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

This selected consolidated financial and other information sets forth the Company's historical consolidated financial information and other operating information as of and for the years ended December 31, 2006 and 2005 and for the six months ended June 30, 2007 and 2006. The financial information as of and for the years ended December 31, 2006 and 2005 was derived from, and should be read in conjunction with, the Audited Consolidated Financial Statements, prepared in accordance with US GAAP, and included elsewhere in this Prospectus. The financial information as of June 30, 2007 and 2006 was derived from, and should be read in conjunction with, the Unaudited Interim Financial Statements, prepared in accordance with US GAAP, and included elsewhere in this Prospectus. Results of operations for the six month period ended June 30, 2007 are not necessarily indicative of results for the full year ending December 31, 2007 or for any other interim period or for any future financial year. This selected consolidated financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Presentation of Financial and Other Information".

	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
	(in thousands of US$)			
Consolidated statement of income data				
Drilling and related services	661,231	483,121	1,048,209	669,527
Other sales and services	12,225	17,810	39,363	7,120
Total revenues	**673,456**	**500,931**	**1,087,572**	**676,647**
Cost of services	(467,953)	(366,239)	(806,881)	(526,072)
Selling, general and administrative expenses	(37,399)	(27,234)	(68,243)	(40,666)
Taxes other than income taxes	(31,232)	(21,256)	(41,250)	(31,086)
Depreciation	(14,653)	(9,184)	(23,722)	(14,654)
Gain on disposal of property, plant and equipment	690	175	275	6,596
Income from operating activities	**122,909**	**77,193**	**147,751**	**70,765**
Interest expense	(13,994)	(8,731)	(19,392)	(15,535)
Interest income	626	561	1,343	737
Currency transaction gain/(loss)	403	702	870	(199)
Other expenses	(1,665)	(1,118)	(6,350)	(4,875)
Income before income taxes	**108,279**	**68,607**	**124,222**	**50,893**
Income tax expense	(29,734)	(18,369)	(33,457)	(17,041)
Net income	**78,545**	**50,238**	**90,765**	**33,852**

	As of June 30,	As of December 31,	
	2007	2006	2005
	(in thousands of US$)		
Consolidated balance sheet data			
Cash and cash equivalents	19,461	29,296	21,772
Total assets	803,834	629,058	364,703
Total short-term debt (including current portion of long-term debt)	108,273	77,557	52,638
Total long-term debt	239,148	200,196	92,463
Total liabilities	560,571	467,069	301,017
Total equity	243,263	161,989	63,686
Total liabilities and equity	803,834	629,058	364,703

	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
	(in thousands of US$)			
Consolidated cash flow data				
Net cash provided by operating activities	39,338	15,734	49,518	18,841
Net cash used in investing activities	(111,829)	(30,107)	(131,789)	(20,189)
Net cash provided by financing activities	62,656	22,126	89,795	18,296

	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
	(in thousands of US$, except percentages and ratios)			
Certain Items and Ratios				
EBITDA[(1)]	136,300	85,961	165,993	80,345
EBITDA margin[(2)]	20.2%	17.2%	15.3%	11.9%
Capital expenditures[(3)]	115,694	43,437	96,102	37,810
Debt to equity[(4)]	1.43	1.66	1.71	2.28

(1) Adjusted EBITDA represents profit (loss) before interest income (expense), income taxes and depreciation. We present EBITDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results as reported under US GAAP. Some of these limitations are as set out below:

- EBITDA does not reflect the impact of financing costs, which are significant and could further increase if we incur more debt, on our operating performance.
- EBITDA does not reflect the impact of income taxes on our operating performance.
- EBITDA does not reflect the impact of depreciation on our operating performance. The assets of our business which are being depreciated will have to be replaced in the future and such depreciation expense may approximate the cost to replace these assets in the future. By excluding this expense from EBITDA, EBITDA does not reflect our future cash requirements for these replacements.
- Other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. We compensate for these limitations by relying primarily on our US GAAP operating results and using EBITDA only as a supplement. See our consolidated statements of income and consolidated statements of cash flows included elsewhere in this Prospectus.
- EBITDA is a measure of our operating performance that is not required by, or presented in accordance with, US GAAP. EBITDA is not a measurement of our operating performance under US GAAP and should not be considered as an alternative to profit, operating profit or any other performance measures derived in accordance with US GAAP or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

(2) Calculated as EBITDA divided by total revenues.
(3) Represents cash used for purchases of property, plant and equipment.
(4) Calculated as the sum of the short-term debt (including the current portion of long-term debt) and long-term debt divided by total equity.

Reconciliation of EBITDA to net income is as follows for the periods indicated:

	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
	(in thousands of US$)			
Net income (loss)	78,545	50,238	90,765	33,852
Add (subtract):				
Depreciation	14,653	9,184	23,722	14,654
Interest expense	13,994	8,731	19,392	15,535
Interest income	(626)	(561)	(1,343)	(737)
Total income tax expense	29,734	18,369	33,457	17,041
EBITDA	**136,300**	**85,961**	**165,993**	**80,345**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and their related notes included elsewhere in this Prospectus. Financial information as of and for the six months ended June 30, 2007 and 2006 has been derived from our Unaudited Interim Financial Statements and the accompanying notes thereto, prepared in accordance with US GAAP and included elsewhere in this Prospectus. Financial information as of and for the years ended December 31, 2006 and 2005 has been derived from our Audited Consolidated Financial Statements and the accompanying notes thereto, prepared in accordance with US GAAP and included elsewhere in this Prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements as a result of numerous factors, including the risks discussed in the sections of this Prospectus entitled "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" and elsewhere in this Prospectus.

Overview

According to Douglas-Westwood, we are the largest independent provider of onshore drilling services in Russia, as measured by the number of meters drilled, providing onshore integrated well construction services and workover services. In addition, we provide offshore drilling services in the Caspian Sea. We offer our onshore integrated well construction services and workover services to local and international oil and gas companies primarily in Russia and our offshore drilling services to Russian and international oil and gas companies in the Russian, Kazakh and Turkmen sectors of the Caspian Sea.

We entered the onshore drilling and workover services business in December 2004 by acquiring substantially all of the onshore drilling and certain related assets of LUKOIL. In 2006, we entered the offshore drilling business by acquiring the offshore drilling business of LUKOIL, which included "Astra", a floating jack-up drilling rig located in the Caspian Sea. According to Douglas-Westwood, as at December 31, 2006, we had an estimated market share of approximately 20.3% of the onshore drilling services market in Russia, as measured by number of meters drilled.

For the six months ended June 30, 2007, we had total revenue of US$673.5 million, EBITDA of US$136.3 million and net income of US$78.5 million. For the year ended December 31, 2006, we had total revenue of US$1,087.6 million, EBITDA of US$165.9 million and net income of US$90.8 million.

Our business is currently organized within two main divisions, onshore and offshore drilling services. For the six months ended June 30, 2007, we had total revenue of US$658.0 million with respect to our onshore division and total revenue of US$15.4 million with respect to our offshore division.

Our onshore drilling services include the construction of production, exploration and appraisal oil and gas and certain other types of wells, including vertical, deviated and horizontal wells, ranging from a depth of approximately 1,200 to more than 5,000 meters. In addition, through the onshore division we provide a wide range of workover services, including sidetracking. We provide our onshore drilling services in several major onshore oil and gas regions of the Russian Federation — Western Siberia, Timan-Pechora and Volga-Urals — and have recently begun to provide onshore drilling services in Kazakhstan on a limited basis.

Our offshore division constructs oil and gas exploration and production wells in waters with depths of up to 45 meters. We provide our offshore drilling services with our jack-up rig, the Astra. In the six months ended June 30, 2007, we drilled a total of one exploration and two production wells in the Russian and Turkmen sectors of the Caspian Sea.

In addition to LUKOIL, our customers include a number of the major Russian and international oil and gas companies operating in Russia and the Caspian Sea, such as Rosneft, Gazpromneft, TNK-BP, Total, Shell and Naryanmarneftegas, a joint venture between LUKOIL and ConocoPhillips.

Certain Factors Affecting our Results of Operations

Changes in Crude Oil and Natural Gas Prices

The prices of crude oil and natural gas in Russia can have a significant impact on our results of operations. World prices for crude oil are characterized by significant fluctuations that are determined by the global balance

of supply and demand. However, Russian natural gas prices are regulated by the Russian government. While Russian natural gas prices have increased in recent years, and are expected to continue to rise to a level closer to parity with export netbacks, they are still significantly below world levels. A substantial or an extended decline in crude oil and natural gas prices could result in lower capital expenditures by our customers, and consequently, a reduction in the number of wells to be drilled by oil and gas companies. Such a pattern of sequential downward and upward changes of our customers' capital expenditures has caused the results of our drilling operations to vary significantly. The results of our workover operations tend to be less sensitive to the fluctuations in crude oil and natural gas prices, as our clients require such services to be performed with respect to their existing wells, which may require workover both during the period of high and low oil prices.

For a discussion of the risks associated with crude oil and natural gas prices, see "Risk Factors — Risks Relating to Our Industry — A substantial or extended decline in oil and gas prices could result in lower capital expenditures by the oil and gas industry thereby reducing demand for our services and decreasing our revenue".

Productivity

Our results of operations are affected by the productivity of our crews, as measured by the number of meters drilled per active drilling crew. According to Douglas-Westwood, for the year ended December 31, 2006, each of our active drilling crews drilled on average approximately 29,300 meters. We expect this measure of our efficiency to improve due to the recent implementation and utilization of more advanced drilling technologies and the application of new standards to our drilling operations. The former include the use of Polycrystalline Diamond Compact drill bits in conjunction with modern drilling motors, drilling with real-time drilling navigation, the use of top-drives and four-step drilling mud cleaning systems. The latter include, for example, an increase in allowed deviations of vertical wells and the use of drilling mud that is more suitable for the geological conditions in which we operate.

Operating Capacity

Our revenue growth can be negatively affected by the number of drilling rigs and drilling crews available to us. Our ability to grow our onshore business or maintain it at its current level depends on our ability to procure sufficient numbers of new drilling rigs and modernize our existing drilling rigs. As such, as of June 30, 2007, we have contractually committed to purchase ten new drilling rigs, of which we expect seven to be delivered by the end of 2007 and three to be delivered during the first half of 2008. Furthermore, we expect to enter into contractual commitments to purchase ten additional drilling rigs which we expect will be delivered in the second half of 2008 and the first half of 2009. However, the global demand for new drilling rigs and rig modernization services currently substantially exceeds their supply. Moreover, any new drilling rigs which we purchase will require an increase in the number of engineers, equipment operators and other technical and management personnel. We believe any such increase in personnel will result in an increase in the wages and salaries category of our cost of services.

Seasonality

Our revenue from onshore and offshore drilling services can be negatively affected by severe winter weather conditions in certain regions of Russia that make oil and gas operations difficult during that season. For example, during January and February 2006, Russia experienced severely cold temperatures of approximately -45 degrees Celsius in certain regions where we operate and the lost drilling time during such period amounted to approximately 90 days, which was equivalent to the loss of use of three drilling crews for one calendar month, which contributed to delays in the mobilization of our equipment and service commencement dates. Our revenue from onshore drilling services may also be negatively affected by winter thawing because drilling rigs, equipment and materials situated in certain regions can only be transported during winter when the ground is sufficiently frozen to create access roads. As a result, a portion of our business activity in the fourth and first quarter of each year is devoted to transportation of drilling rigs, equipment and materials and we experience a decrease in revenues while continuing to incur costs. If we fail to complete a drilling contract on time or are unable to move our equipment due to adverse weather conditions, our ability to timely commence drilling at another site may be impeded.

However, the effect of severe weather conditions on our operations depends on the specific type of service being provided. For instance, our onshore exploration drilling services are most affected by the adverse weather conditions, as our drilling rigs, equipment, materials and crews that are required for such services are mobilized to remote locations accessible only by winter roads or helicopters. On the other hand, our onshore production drilling services tend to be less affected by adverse weather conditions due to the cluster drilling method utilized

by us, which involves drilling multiple wells from a single drilling pad. With respect to such drilling method, our operations may be temporarily disrupted by adverse weather conditions in the event we are unable to operate our rigs or mobilize required supplies to rig sites.

With respect to our offshore division, we are generally unable to perform drilling services in the Russian Sector of the Caspian Sea during winter months due to the presence of ice.

Market Trends

According to Douglas-Westwood, for the year ended December 31, 2006, the Russian oilfield services market (excluding equipment manufacturing and formation evaluation services, but including services performed by in-house oil field services providers) is estimated to be worth approximately US$10.7 billion and is forecast to rise to approximately US$27.4 billion by 2011, representing a CAGR of approximately 21%. While all regions show growth, based on current price levels, during this five-year period, such oilfield services market in Western Siberia is expected to grow at 13% CAGR compared to 21% for Timan Pechora and 13% for Volga Urals. Eastern Siberia, the area where we expect to pursue opportunities to provide exploration drilling services, is expected to grow at 50% CAGR during the same period.

Change in Mix of Services

Because margins can vary significantly amongst the services we provide, our results of operations are affected by changes in the mix of onshore and offshore drilling services we provide to our customers. The services we provide in our onshore division have expanded from offering primarily conventional production and exploration drilling services in January 2005 to offering a wider range of higher margin drilling and workover services, including sidetracking and horizontal drilling. For example, for the year ended December 31, 2005, we drilled 46,208 meters utilizing the horizontal drilling technique, while for the year ended December 31, 2006, our horizontal drilling operations increased to 146,718 meters and for the six months ended June 30, 2007 we drilled 113,729 meters utilizing the horizontal drilling technique. We expect the scope of our horizontal drilling to continue to grow as we expect our clients to increasingly demand such services in order to access additional producing horizons in the oil and gas fields they operate.

The number of workovers we performed in the past has fluctuated. For the year ended December 31, 2005, we performed 3,531 workover operations while for the year ended December 31, 2006, we performed 2,707 workover operations. For the six months ended June 30, 2007, we performed 1,059 workover operations, while for the six months ended June 30, 2006, we performed 1,410 workover operations. We intend to expand our workover services.

The number of side-tracks we performed in the past has fluctuated. For the year ended December 31, 2005, we drilled 37 side-tracks, while for the year ended December 31, 2006, we drilled 42 sidetracks. For the six months ended June 30, 2007, we drilled 25 side-tracks, while for the six months ended June 30, 2006, we drilled 18 sidetracks. As a result of the higher margins achieved through sidetracking, we intend to continue to expand these services. Although we currently have incurred minimal capital expenditures with respect to sidetracking, we expect to significantly increase these expenditures in the near future.

Price Optimization

Our revenue growth depends on our ability to charge clients market prices for our onshore and offshore drilling and other services. The LUKOIL Framework Agreement established a pricing adjustment formula applicable to the onshore drilling services we provide to LUKOIL. Such pricing formula effectively limits our ability to adjust the prices related to our onshore drilling services for LUKOIL in order to reflect fluctuations in the market prices occurring prior to the following annual price adjustment. However, we consider that the current prices at which we provide services pursuant to the LUKOIL Framework Agreement are comparable to market prices given the volume of services provided. However, we believe that the contracts we enter into with our other customers, and the companies of the LUKOIL group outside of the scope of the LUKOIL Framework Agreement, provide us with greater flexibility to adjust such contract prices to better conform with current market levels.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with US GAAP requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual amounts may differ from these estimates. The following critical accounting policies require significant judgements, assumptions and estimates and should be read in conjunction with our consolidated financial statements included elsewhere in this Prospectus.

Functional and reporting currency. Our functional currency, except for that of BKE, is the US dollar. The functional currency of BKE is the Russian ruble as this is the currency of the primary economic environment in which it operates and in which cash is generated and expended. Our reporting currency is the US dollar.

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

- All assets and liabilities were translated from the functional to the reporting currency at the exchange rate effective at the reporting date. The closing exchange rates as of December 31, 2006 and 2005 and June 30, 2007, were 26.33, 28.78 and 25.81 Russian rubles to one US dollar, respectively;
- Equity items were translated from the functional to the reporting currency at the relevant historical exchange rate; and
- Items in the statement of operations and cash flows were translated from the functional currency to the reporting currency at rates, which approximate rates applicable at the date of the relevant transaction.

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

The Russian ruble is not a readily convertible currency outside the Russian Federation and, accordingly, any conversion of Russian ruble amounts to US dollars should not be construed as a representation that Russian ruble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate disclosed, or at any other exchange rate.

Revenue recognition. Drilling and related services are generally sold based upon contracts with our customers that do not include significant post-delivery obligations. Service revenue is recognized when the services are rendered and collectibility is reasonably assured. Rates for services are typically priced on a per day, per meter, per man-hour, or similar basis. Claims and change orders that are in the process of being negotiated with customers for extra work or changes in the scope of work are included in revenue when collection is deemed probable. The Group presents as work in progress gross amounts due from customers for services under contracts in progress where costs incurred plus recognized profits (less recognized losses) exceeds progress billings. The Group presents as advances received from customers gross amounts due to customers for services under contracts in progress where progress billings exceed costs incurred plus recognized profits (less recognized losses). The revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the Group.

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

All sales are shown net of applicable value added tax.

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

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

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

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

Deferred income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of consolidated financial statements and their respective tax bases and operating loss and tax credit carry forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

Pension benefits. The Company sponsors a post-employment and post-retirement benefits program. The primary component of the post-employment and post-retirement benefits program is a defined benefit pension plan that covers the majority of the Group's employees. This plan is administered by a non-state pension fund, LUKOIL-GARANT, and provides pension benefits primarily based on years of service and final remuneration levels. The Company also provides several long-term employee benefits such as death-in-service benefit and lump-sum payments upon retirement of a defined benefit nature and other defined benefits to certain old age and disabled pensioners who have not vested any pensions under the pension plan.

These post-employment and post-retirement benefits programs were assumed by the Group from LUKOIL as of the date of acquisition of BKE.

The Company's pension plan primarily consists of a defined benefit plan enabling employees to contribute a portion of their salary to the plan and at retirement to receive a lump sum amount from the Company equal to all past contributions made by the employee up to 7% of their annual salary. Employees also have the right to receive upon retirement the benefits accumulated under the previous pension plan that was replaced in December 2003, when BKE was a subsidiary of LUKOIL. These benefits have been fixed and included in the benefit obligation as of December 31, 2006 and 2005. The amount was determined primarily based on a formula including past pensionable service and relative salaries as of December 31, 2003.

On December 31, 2006, the Group adopted the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This Statement requires employers to recognize the funded status of all post-retirement defined benefit plans in the statement of financial position with corresponding adjustments to accumulated other comprehensive income. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial gains and unrecognized prior service costs, both of which were previously netted against the plan's funded status in the statement of financial position. These amounts will be subsequently recognized as net periodic benefit cost. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of other comprehensive income. These amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of SFAS No. 158.

The Company uses December 31 as the measurement date for its post-employment and post-retirement benefits program. An independent actuary has assessed the benefit obligations as of December 31, 2006 and 2005.

Revenues

We generate our revenues from primarily the sale of onshore drilling services, as well as from offshore drilling services and certain other services.

Our revenue from drilling and related services represented approximately 98.2%, 96.4% and 99.0% of our total revenue for the six months ended June 30, 2007 and for the years ended December 31, 2006 and 2005, respectively.

A significant amount of our revenue from drilling and related services is derived from LUKOIL related services which, for the year ended December 31, 2006 and the six months ended June 30, 2007, accounted for approximately 88.0% and 81.8%, respectively, of our total revenues. Pursuant to the LUKOIL Framework Agreement, BKE enters into annual contracts with companies of the LUKOIL group which contain detailed information on the numbers and locations of the wells to be drilled during the relevant year, as well as the basis on which our services are provided such as "turnkey," price estimates, price per meter drilled and general contractor. The price estimate basis is typically used for exploration drilling, and the price per meter drilled basis is typically used for production drilling agreements.

With respect to our other customers and the companies of the LUKOIL group with which we enter into contracts outside of the scope of the LUKOIL Framework Agreement, contracts are typically for a period of one year. We generally contract to provide our onshore drilling services on the basis of agreed procedures and prices, as a general contractor and, to a limited extent, on a dayrate basis. For further details of such onshore drilling contracts, see "Business — Contracting".

We obtain a significant part of our non-LUKOIL business through open tenders. The remaining portion of our business is obtained through direct sales, which are the result of both our marketing efforts and clients' requests for our services. Most tenders are conducted annually through a process that begins with requests for proposals in September and ends with contractual commitments generally being signed between December and March. As a result, a portion of our business activity in the winter months is generally devoted to rig up and rig down operations and transportation of equipment and personnel required for our onshore drilling services. Direct sales occur throughout the year.

Cost of Services

We have seven primary cost categories within our cost of services: services of subcontractors, materials, wages and salaries, fuel and energy, transportation, leasing and renting and other. The table below sets forth the costs associated with each category in dollars and as a percentage of the cost of services for the periods indicated.

	Six months ended June 30,				Year ended December 31,			
	2007		2006		2006		2005	
	(in thousands of US$, except percentages)							
Cost of Services	**(467,953)**	**100%**	**(366,239)**	**100%**	**(806,881)**	**100%**	**(526,072)**	**100%**
Services of subcontractors	(157,733)	33.7%	(152,430)	41.6%	(318,766)	39.5%	(172,206)	32.7%
Materials	(152,594)	32.6%	(107,784)	29.4%	(243,553)	30.2%	(141,171)	26.8%
Wages and salaries	(103,549)	22.1%	(60,834)	16.6%	(151,743)	18.8%	(129,725)	24.7%
Fuel and energy	(27,191)	5.8%	(26,196)	7.2%	(47,467)	5.9%	(38,927)	7.4%
Transportation of employees to drilling fields	(10,947)	2.4%	(11,157)	3.0%	(23,085)	2.9%	(22,602)	4.3%
Leasing and rent	(5,173)	1.1%	(3,882)	1.1%	(8,504)	1.0%	(12,492)	2.4%
Other	(10,766)	2.3%	(3,956)	1.1%	(13,763)	1.7%	(8,949)	1.7%

Services of Subcontractors

We generally subcontract with third parties to provide us with certain services in our onshore division in instances where we do not perform these services ourselves. In our onshore division, services contracted from third parties include the cost of subcontracting for technological transportation services; preparatory services; well facility services; construction of well pads and access roads; geophysical services; well services; drilling motor and drilling navigation equipment repair services; cementing services; and drilling bit services. The total amount of our costs attributable to subcontractors for the year ended December 31, 2006 increased as a percentage of the total cost of services when compared with the same percentage for the year ended December 31, 2005 primarily due to the sale in the fourth quarter of 2005 of certain of our transportation and well servicing assets to a former shareholder and member of management, the transfer of related employees and our subsequent contractual arrangements with the entities controlled by such former shareholder and member of management for the provision of transportation and well servicing services, which resulted in these expenses moving from the wages and salaries category to services of subcontractors. We expect that the cost of services contracted from subcontractors will continue to increase as the

volume of wells we drill increases. Moreover, we expect the costs of services of subcontractors as a percentage of the total cost of services to increase as a result of our increased use of more technologically advanced subcontractor services such as "logging while drilling" and "measurement while drilling".

Materials

Expenditures for materials have been primarily influenced by our customers' particular drilling programs and projects. Materials for our onshore and offshore drilling divisions primarily include pipes, chemicals and cement and drilling tools. The increase in the cost of materials for the year ended December 31, 2006 was primarily due to an increase in the number of meters we drilled in connection with the onshore drilling programs and projects of our customers, particularly those of LUKOIL. We believe further increases in the cost of materials are likely to occur in the foreseeable future as our customers continue to increase the scope of their onshore drilling programs.

Wages and Salaries

Employee wages and salaries include costs of our personnel directly engaged in providing onshore and offshore drilling and other services. Employee wages and salaries were primarily influenced by the expansion of our onshore drilling services division and the establishment of our offshore drilling services division.

Employee costs include amounts we are required to pay to the Russian government in support of pension, social insurance and medical funds. The rate of contribution depends upon the amount of the salaries, wages and benefits accrued for our employees in the Russian Federation. In the year ended December 31, 2006, contributions were on average US$10,091 per employee per year, while for the six months ended June 30, 2006, such contributions were on average US$6,590 per employee. Such expenses do not include contributions which we make to LUKOIL-GARANT, a private pension fund. We believe employee costs will continue to increase as new drilling rigs are put into operation, which will require the hiring of additional rig crews.

Fuel and energy

Fuel and energy costs consist primarily of oil and lubricants. We believe that if the price of crude oil continues to increase, it may cause our fuel and energy costs to continue to increase for the foreseeable future.

Transportation of employees to drilling fields

Costs relating to the transportation of employees to drilling fields primarily include transportation services related to the mobilization and rotation of rig crews.

Leasing and Rent

Leasing and rent costs consist primarily of the cost of renting drilling equipment.

Other

The remaining portion of our cost of services, which we categorize as "other", includes current repair expenses for fixed assets; license fees; insurance expenses; safety and environmental expenses; and maintenance expenses.

Results of Operations

The table below sets forth a summary of our operating results in dollars and as a percentage of revenues for the periods indicated.

	Six months ended June 30,				Year ended December 31,			
	2007		2006		2006		2005	
	(in thousands of US$, except percentages)							
Consolidated statement of income data								
Total revenues	**673,456**	**100%**	**500,931**	**100%**	**1,087,572**	**100%**	**676,647**	**100%**
Cost of services	(467,953)	(69.5)%	(366,239)	(73.1)%	(806,881)	(74.2)%	(526,072)	(77.8)%
Selling, general and administrative expenses	(37,399)	(5.6)%	(27,234)	(5.4)%	(68,243)	(6.3)%	(40,666)	(6.0)%
Taxes other than income taxes	(31,232)	(4.6)%	(21,256)	(4.2)%	(41,250)	(3.8)%	(31,086)	(4.6)%
Depreciation	(14,653)	(2.2)%	(9,184)	(1.8)%	(23,722)	(2.2)%	(14,654)	(2.2)%
Gain on disposal of property, plant and equipment	690	0.1%	175	—	275	—	6,596	1.0%
Income from operating activities	**122,909**	**18.3%**	**77,193**	**15.4%**	**147,751**	**13.6%**	**70,765**	**10.5%**
Interest expense	(13,994)	(2.1)%	(8,731)	(1.7)%	(19,392)	(1.8)%	(15,535)	(2.3)%
Interest and dividend income	626	0.1%	561	0.1%	1,343	0.1%	737	0.1%
Currency translation gain/(loss)	403	0.1%	702	0.1%	870	0.1%	(199)	—
Other expenses	(1,665)	(0.3)%	(1,118)	(0.2)%	(6,350)	(0.6)%	(4,875)	(0.7)%
Income before income taxes	**108,279**	**16.1%**	**68,607**	**13.7%**	**124,222**	**11.4%**	**50,893**	**7.5%**
Income tax expense	(29,734)	(4.4)%	(18,369)	(3.7)%	(33,457)	(3.1)%	(17,041)	(2.5)%
Net income	**78,545**	**11.7%**	**50,238**	**10.0%**	**90,765**	**8.4%**	**33,852**	**5.0%**

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Revenues

Total revenues increased by US$172.6 million, or 34.5%, to US$673.5 million for the six months ended June 30, 2007 from US$500.9 million for the six months ended June 30, 2006. Our results of operations for the six months ended June 30, 2007 were primarily influenced by an increase in the volume of drilling services provided by us and the annual increase in prices for our services that became effective in January 2007. For the six months ended June 30, 2007, we drilled 1,533 thousand meters as compared with 1,202 thousand meters drilled for the six months ended June 30, 2006. This increase primarily resulted from an increase in the volume of drilling services provided to the companies of the LUKOIL group.

The decrease in the revenues attributable to other sales and services, from US$17.8 million to US$12.2 million for the six months ended June 30, 2006 and 2007, respectively, primarily resulted from the sale of our workover operations in the Perm region in the first half of 2006.

The following table sets forth a break-down of our revenue by type of services provided and as a percentage of total revenues for the period indicated.

	Six months ended June 30,			
	2007		2006	
	(in thousands of US$, except percentages)			
Drilling and related services	661,231	98.2%	483,121	96.4%
Other sales and services	12,225	1.8%	17,810	3.6%
Total Revenues	**673,456**	**100.0%**	**500,931**	**100.0%**

Cost of Services

Cost of services increased by US$101.7 million, or 27.8%, to US$467.9 million for the six months ended June 30, 2007 from US$366.2 million for the six months ended June 30, 2006. As described more fully below, our cost of services for the six months ended June 30, 2007 was primarily affected by an increase in the volume of drilling services provided by us. Cost of services as a percentage of total revenue was 69.5% for the six months ended June 30, 2007 as compared to 73.1% for the six months ended June 30, 2006. In addition to an

increase in revenue, we believe the margin improvement was primarily attributable to a concerted effort by management to improve the cost efficiency associated with our overall drilling process.

Services of subcontractors were the largest component of our cost of services for the six months ended June 30, 2007 and 2006. Services of subcontractors for the six months ended June 30, 2007 were US$ 157.7 million, or 33.7% of total cost of services, as compared to US$152.4 million, or 41.6% of total cost of services, for the six months ended June 30, 2006. This increase was primarily a result of an increase in the volume of drilling services provided by us and the acquisition of our offshore division, which commenced operations on January 1, 2007. Furthermore, cost of subcontractors as a percentage of the total cost of services has increased as a result of using more technologically advanced subcontractor services such as "logging while drilling" and "measurement while drilling." In Western Siberia we discontinued the provision of well pad and access road construction services to LUKOIL, which affected services of subcontractors.

Materials costs for the six months ended June 30, 2007 were US$152.6 million, or 32.6% of total cost of services as compared to US$107.8 million, or 29.4% of total cost of services for the six months ended June 30, 2006. This increase resulted primarily from an increase in the volume of drilling services provided by us and the acquisition of our offshore division, which resulted in extra costs of materials that were required in our offshore drilling operations.

Wages and salaries for the six months ended June 30, 2007 were US$103.5 million, or 22.1% of total cost of services as compared to US$60.8 million, or 16.6% of total cost of services for the six months ended June 30, 2006. The increase was primarily due to the additional crews hired to accommodate the increase in the volume of drilling services provided by us, acquisition of our offshore division, a number of company-wide salary increases which became effective during the six months ended June 30, 2007.

Fuel and energy costs for the six months ended June 30, 2007 were US$27.2 million, or 5.8% of total cost of services as compared to US$26.2 million, or 7.2% of total cost of services for the six months ended June 30, 2006. The increase in fuel and energy costs for the six months ended June 30, 2007 was, in large part, due to an increase in fuel prices during this period. The decrease of fuel and energy costs as a percentage of our costs of services was partially attributable to a decrease in the use of diesel fuel powered drilling rigs during the six months ended June 30, 2007.

Expenses relating to the transportation of employees to drilling fields for the six months ended June 30, 2007 were US$10.9 million, or 2.3% of total cost of services as compared to US$11.2 million, or 3.0% of total cost of services for the six months ended June 30, 2006. The decrease in the cost of expenses relating to the transportation of employees to drilling fields for the six months ended June 30, 2007 was primarily a result of optimization of transportation logistics, which included a change of the rotation schedule of our crews from a 15 day rotation to a 21 day rotation and a change in the means of transportation from air to railroad travel.

Leasing and rent costs for the six months ended June 30, 2007 were US$5.2 million, or 1.1% of total cost of services as compared to US$3.9 million, or 1.1% of total cost of services for the six months ended June 30, 2006. The increase in leasing and rent costs for the six months ended June 30, 2007 was primarily attributable to lease and rent price increases and an increase in the amount of equipment leased as a result of the company's business.

The remaining portion of our cost of services, which we categorize as other, was US$10.8 million or 2.3% of our total cost of services for the six months ended June 30, 2007 as compared to US$3.9 million or 1.1% of our total cost of services for the six months ended June 30, 2006. The increase in the remaining portion of our cost of services for the six months ended June 30, 2007 was primarily due to additional expenses related to our new comprehensive insurance program which became effective as of June 1, 2007 and crew facilities' maintenance expense.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by US$10.2 million, or 37.5%, to US$37.4 million for the six months ended June 30, 2007 as compared to US$27.2 million for the six months ended June 30, 2006. The increase in selling, general and administrative expenses was due primarily to the increase in the volume of business in the Naryanmar and Usinsk branches of BKE.

Taxes Other Than Income Taxes

Taxes other than income taxes increased by US$9.9 million, or 46.5%, to US$31.2 million for the six months ended June 30, 2007 as compared to US$21.3 million for the six months ended June 30, 2006. The increase in taxes other than income taxes was primarily attributable to our asset base increase, business growth and an increase in the amount of social taxes payable by us resulting from an increase in the number of employees in the six months ended June 30, 2007. Such taxes other than income tax attributable to business growth included various local taxes, such as property tax, education tax, police tax, animal protection tax and small nations tax.

Depreciation

Depreciation increased by US$5.4 million, or 58.7%, to US$14.6 million for the six months ended June 30, 2007 as compared to US$9.2 million for the six months ended June 30, 2006. The increase in depreciation was primarily the result of an increase in capital expenditures, particularly the acquisition of additional drilling equipment.

Gains on Disposal of Property, Plant and Equipment

Gains on the disposal of property, plant and equipment increased by US$0.5 million to US$0.7 million for the six months ended June 30, 2007 as compared to US$0.2 million for the six months ended June 30, 2006. This increase was primarily due to the disposal of certain non-core assets in the Volga-Urals Region.

Income From Operating Activities

Income from operating activities increased by US$45.7 million, or 59.2%, to US$122.9 million for the six months ended June 30, 2007 as compared to US$77.2 million for the six months ended June 30, 2006. The increase in income from operating activities was primarily attributable to the increase in total revenues and cost optimization.

Interest Expense

Interest expense increased by US$5.3 million, or 60.9%, to US$14.0 million for the six months ended June 30, 2007 as compared to US$8.7 million for the six months ended June 30, 2006. The increase in interest expense was primarily attributable to additional borrowings to finance capital expenditures, such as acquisitions of new drilling rigs, and to maintain working capital. In the near term, we expect our effective corporate income tax rate to be approximately 29%.

Income Before Income Taxes

Income before income taxes increased by US$39.7 million, or 57.9%, to US$108.3 million for the six months ended June 30, 2007 as compared to US$68.6 million for the six months ended June 30, 2006. The increase in income before income taxes was primarily attributable to the overall growth of our business.

Income Tax Expense

Income tax expense increased by US$11.3 million, or 61.4%, to US$29.7 million for the six months ended June 30, 2007 as compared to US$18.4 million for the six months ended June 30, 2006. The increase in income tax expense was primarily attributable to the increase in our income and an increase in the applicable effective tax rate, which was equal to 27.5% and 26.8% in the first six months ended June 30, 2007 and 2006, respectively.

Net Income

As a result of the foregoing factors, net income increased by US$28.3 million, or 56.4%, to US$78.5 million for the six months ended June 30, 2007 as compared to US$50.2 million for the six months ended June 30, 2006.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Revenues

Revenues increased by US$410.9 million, or 60.7%, to US$1,087.6 million for the year ended December 31, 2006 from US$676.7 million for the year ended December 31, 2005. Our results of operations for the year ended December 31, 2006 were primarily affected by the increase in the number of meters drilled with respect to our

onshore division, as well as an increase in the price we charged for such drilling services. For the year ended December 31, 2006, we drilled 2,495,405 meters as compared with 1,699,149 meters drilled for the year ended December 31, 2005, which was primarily due to an increased demand from LUKOIL for us to drill production wells in Western Siberia under the LUKOIL Framework Agreement. We were able to accommodate this increased demand by hiring additional drilling crews, improving the productivity of our existing drilling crews and utilizing a greater number of drilling rigs.

The following table sets forth a break-down of our revenue by type of services provided and as a percentage of total revenues for the period indicated.

	Year ended December 31,			
	2006		2005	
	(in thousands of US$, except percentages)			
Drilling and related services	1,048,209	96.4%	669,527	99.0%
Other sales and services	39,363	3.6%	7,120	1.0%
Total Revenues	1,087,572	100.0%	676,647	100.0%

Cost of Services

Cost of services increased by US$280.8 million, or 53.4%, to US$806.9 million for the year ended December 31, 2006 from US$526.1 million for the year ended December 31, 2005. As described more fully below, our cost of services for the year ended December 31, 2006 was primarily affected by a substantial increase in raw material expenses with respect to our onshore division, as well as an increase of costs related to services of subcontractors. Cost of services as a percentage of total revenue was 74.2% for the year ended December 31, 2006 as compared to 77.8% for the year ended December 31, 2005. In addition to an increase in revenue, we believe the margin improvement was primarily attributable to a concerted effort by management to improve the cost efficiency associated with our overall drilling process.

Services of subcontractors were the largest component of our cost of services for the years ended December 31, 2006 and 2005. Services of subcontractors for the year ended December 31, 2006 were US$318.8 million, or 39.5% of total cost of services as compared to US$172.2 million, or 32.7% of total cost of services for the year ended December 31, 2005. This increase was due primarily to the sale in the fourth quarter of 2005 of certain of our transportation and well servicing assets to a former shareholder and member of management, the transfer of related employees and our subsequent contractual arrangements with the entities controlled by such former shareholder and member of management for the provision of transportation and well servicing services, which resulted in these expenses moving from the wages and salaries category to services of subcontractors.

Materials costs for the year ended December 31, 2006 were US$243.6 million, or 30.2% of total cost of services as compared to US$141.2 million, or 26.8% of total cost of services for the year ended December 31, 2005. This increase resulted primarily from a change in our procurement policy relating to onshore drilling services provided to LUKOIL pursuant to which, commencing in 2006, we began purchasing materials under the LUKOIL Framework Agreement directly from LUKOIL, rather than receiving such materials from LUKOIL under a previously utilized tolling arrangement.

Wages and salaries for the year ended December 31, 2006 were US$151.7 million, or 18.8% of total cost of services as compared to US$129.7 million, or 24.7% of total cost of services for the year ended December 31, 2005. The overall increase of wages and salaries was primarily due to the hiring of additional crews and salary increases, which was offset by the increase in the services of subcontractors. The magnitude of the increase in the services of subcontractors caused wages and salaries to decrease as a percentage of total costs.

Fuel and energy costs for the year ended December 31, 2006 were US$47.5 million, or 5.9% of total cost of services as compared to US$38.9 million, or 7.4% of total cost of services for the year ended December 31, 2005. The increase in fuel and energy costs for the year ended December 31, 2006 was primarily due to an increase in the number of meters which we drilled as a result of an increased demand from our onshore drilling customers for us to perform drilling and drilling related services.

Expenses relating to the transportation of employees to drilling fields for the year ended December 31, 2006 were US$23.1 million, or 2.9% of total cost of services as compared to US$22.6 million, or 4.3% of total cost of services for the year ended December 31, 2005. The increase in the cost of expenses relating to the transportation of employees to drilling fields for the year ended December 31, 2006 was primarily a result of an increase in transporting employees to drilling fields due to an increased number of meters which we drilled.

Leasing and rent costs for the year ended December 31, 2006 were US$8.5 million, or 1.0% of total cost of services as compared to US$12.5 million, or 2.4% of total cost of services for the year ended December 31, 2005. The increase in leasing and rent costs for the year ended December 31, 2006 was primarily attributable to more equipment and tools being needed to accommodate an increase in the demand by our customers for drilling and drilling related services.

The remaining portion of our cost of services, which we categorize as other, was US$13.8 million or 1.7% of our total cost of services for the year ended December 31, 2006 as compared to US$8.9 million or 1.7% of our total cost of services for the year ended December 31, 2005. The increase in the remaining portion of our cost of services for the year ended December 31, 2006 was primarily due to an increase in the total number of meters drilled and drilling related services in connection with our onshore drilling division.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by US$27.5 million, or 67.6%, to US$68.2 million for the year ended December 31, 2006 as compared to US$40.7 million for the year ended December 31, 2005. The increase in selling, general and administrative expenses was due primarily to the increase in the volume of business in the Naryanmar and Usinsk branches of BKE. The increase was also due to increased expenditures relating to the development of our Moscow corporate infrastructure. We expect selling, general and administrative expenses to continue to increase due to the planned addition of a corporate infrastructure in Cyprus.

Taxes Other Than Income Taxes

Taxes other than income taxes increased by US$10.2 million, or 32.8%, to US$41.3 million for the year ended December 31, 2006 as compared to US$31.1 million for the year ended December 31, 2005. The increase in taxes other than income taxes was primarily attributable to an increase in social taxes paid due to a larger number of employees hired during the year as compared with the year ended December 31, 2005.

Depreciation

Depreciation increased by US$9.0 million, or 61.2%, to US$23.7 million for the year ended December 31, 2006 as compared to US$14.7 million for the year ended December 31, 2005. The increase in depreciation was primarily the result of an increase in new capital expenditures, particularly fixed assets, such as drilling rigs.

Gains on Disposal of Property, Plant and Equipment

Gains on the disposal of property, plant and equipment decreased by US$6.3 million, or 95.5%, to US$0.3 million for the year ended December 31, 2006 as compared to US$6.6 million for the year ended December 31, 2005. This decrease was primarily due to a one-time disposal by us of certain of our transportation and well servicing assets to one of our former shareholders and member of management in the fourth quarter of 2005.

Income From Operating Activities

Income from operating activities increased by US$77.0 million, or 108.8%, to US$147.8 million for the year ended December 31, 2006 as compared to US$70.8 million for the year ended December 31, 2005. The increase in income from operating activities was primarily attributable to the increase in volume of meters drilled, as well as increased margins received from such drilling.

Interest Expense

Interest expense increased by US$3.9 million, or 25.2%, to US$19.4 million for the year ended December 31, 2006 as compared to US$15.5 million for the year ended December 31, 2005. The increase in interest expense was primarily attributable to an increase in borrowings to finance the acquisition of six new onshore drilling rigs and shareholder loans made to us in connection with the acquisition of our offshore division.

Income Before Income Taxes

Income before income taxes increased by US$73.3 million, or 144%, to US$124.2 million for the year ended December 31, 2006 as compared to US$50.9 million for the year ended December 31, 2005. The increase in income before income taxes was primarily attributable to an increase in the volume of meters drilled by our onshore division.

Income Tax Expense

Income tax expense increased by US$16.5 million, or 97.1%, to US$33.5 million for the year ended December 31, 2006 as compared to US$17.0 million for the year ended December 31, 2005. The increase in income tax expense was primarily attributable to an increase in net income. Our effective tax rate for the year ended December 31, 2006, was 27% as compared to 33% for the year ended December 31, 2005. The decrease in the effective tax rate was attributable primarily to the effect of non-deductible expenses in 2006.

Net Income

As a result of the foregoing factors, net income increased by US$56.9 million, or 167.9%, to US$90.8 million for the year ended December 31, 2006 as compared to US$33.9 million for the year ended December 31, 2005.

Liquidity and Capital Resources

The Company's primary sources of liquidity are cash generated from operating activities and debt financing. The Company's plan going forward is to finance its capital expenditures, interest payments and dividends primarily out of operating cash flows as well as to finance a portion of its capital expenditures through current credit facilities, as well as by utilizing a portion of the proceeds from the Offering.

Cash Flows

The table below shows our net cash flows from operating, investing and financing activities for the six months ended June 30, 2007 and 2006 and for the years ended December 31, 2006 and 2005.

	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
			(in thousands of US$)	
Net cash provided by operating activities	39,338	15,734	49,518	18,841
Net cash used in investing activities	(111,829)	(30,107)	(131,789)	(20,189)
Net cash provided by financing activities	62,656	22,126	89,795	18,296

Operating activities

Net cash provided by operating activities amounted to US$49.5 million for the year ended December 31, 2006 as compared to US$18.8 million for the year ended December 31, 2005. This increase in cash flows provided by operating activities principally reflects a higher net income of US$90.8 million for the year ended December 31, 2006 as compared to US$33.9 million for the year ended December 31, 2005, partially offset by an increase in depreciation.

Net cash provided by operating activities amounted to US$39.3 million for the six months ended June 30, 2007 as compared to US$15.7 million for the six months ended June 30, 2006. This increase was primarily the result of an increase in net income.

Investing activities

Net cash used in investing activities amounted to US$131.8 million for the year ended December 31, 2006 as compared to US$20.2 million for the year ended December 31, 2005. This increase was primarily the result of the purchase of our offshore division in December 2006 for a total consideration net of cash acquired of US$37.5 million and the purchase of fixed assets for a total of US$96.1 million, including advance payments related to new onshore drilling rig purchases in the amount of approximately US$48.3 million.

Net cash used in investing activities amounted to US$111.8 million for the six months ended June 30, 2007 as compared to US$30.1 million for the six months ended June 30, 2006. This increase was primarily the result of payment for asset purchases.

Financing activities

Net cash provided by financing activities amounted to US$89.8 million for the year ended December 31, 2006 as compared to US$18.3 million for the year ended December 31, 2005. This increase was primarily the result of our incurrence of long-term indebtedness in order to finance our capital expenditure program.

Net cash provided by financing activities amounted to US$62.7 million for the six months ended June 30, 2007 as compared to US$22.1 million for the six months ended June 30, 2006. This increase was primarily the result of an increase in long-term debt to finance the acquisition of our offshore division.

Liquidity

As of June 30, 2007 and December 31, 2006 and 2005, we had cash and cash equivalents of US$19.5 million, US$29.3 million and US$21.8 million, respectively.

	Six months ended June 30,	Year ended December 31,	
	2007	2006	2005
	(in thousands of US$)		
Ruble denominated cash held in banks	16,305	3,524	20,939
Other currency denominated cash held in banks	3,156	25,772	730
Other	—	—	103
Total	19,461	29,296	21,772

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

Capital Expenditures

Our business is capital intensive and expenditures are primarily required to (i) purchase new drilling rigs and other equipment and (ii) upgrade and modernize the technical characteristics of our existing drilling rigs and equipment.

During the six months ended June 30, 2007 and for each of the years ended December 31, 2006 and 2005 advances given for property, plant and equipment amounted to the following:

	Six months ended June 30,	Year ended December 31,	
	2007	2006	2005
	(in thousands of US$)		
Advances given for property, plant and equipment	70,262	52,962	—

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

The table below presents the number of new onshore drilling rigs that we have entered into contractual commitments to purchase, but which may have not yet been delivered, for each of the periods indicated.

	Year ended December 31,		
	2007	2006	2005
Contractual commitments for the purchase of new drilling rigs	7	9	—

As of June 30, 2007, we have contractually committed to purchase ten new drilling rigs, of which we expect seven to be delivered by the end of 2007 and three to be delivered during the first half of 2008. Furthermore, we expect to enter into contractual commitments to purchase ten additional drilling rigs which we expect will be delivered in the second half of 2008 and the first half of 2009. We estimate that the capital expenditures required to enter into such contractual commitments for the ten new onshore drilling rigs will be approximately US$161.0 million. We expect to be able to finance the acquisitions of the onshore drilling rigs through additional borrowings and other external sources, as well as from a portion of the proceeds from the Offering.

Capital Resources

As of June 30, 2007, our loans and borrowings were comprised of the following:

Long-term debt	Currency	Annual contractual interest rate	Aggregate Principal Amount Outstanding at June 30, 2007
			(in thousands of US$)
Debt of the Company			
Loans from stockholders	USD	8.6%	70,000
Loans from OAO NK LUKOIL	USD	6.0%	32,581
Debt of our subsidiaries			
Bank loans			
Sberbank	RUB	11.0%[1]	24,100
Sberbank	RUB	11.3%	27,656
ZAO International Moscow Bank	RUB	8.95%	36,024
ZAO International Moscow Bank	RUB	8.75%	32,150
ZAO International Moscow Bank	EURO	EURIBOR plus 2.55%	5,648
Loans from LUKOIL Group			
OAO NK LUKOIL	RUB	6.0%	40,008
Other companies of LUKOIL Group	RUB	—	3,639
Total long-term debt			271,806
Short-term debt			
Sberbank	RUB	7.4%	19,368
Sberbank	RUB	7.4%	15,032
ZAO International Moscow Bank	EURO	EURIBOR plus 2.5%	16,136
ZAO International Moscow Bank	RUB	7.1%	5,152
ZAO International Moscow Bank	RUB	7.35%	2,130
Total short-term debt			57,818

[1] The interest rates are (i) 11.00% for the period until March 9, 2008, (ii) 10.0% for the period from March 9, 2008 to March 9, 2010 and (iii) 9.0% for the period from March 9, 2010 to March 7, 2011.

Since June 30, 2007, there has been a slight increase in our long-term debt due to the effect of an increase in the value of the ruble relative to the US dollar.

We believe we have sufficient working capital to meet our requirements for at least the next 12 months.

The following table summarizes the principal maturities of our long-term debt, including its current portion, as of June 30, 2007. We expect to meet our contractual obligation payment requirements with cash flows from our operations and other financing arrangements.

	Payments due by period						
	Total	July 1, 2007 to June 30, 2008	July 1, 2008 to December 31, 2008	2009	2010	2011	2012 and thereafter
			(in thousands of US$)				
Contractual Obligations							
Long-term debt	271,806	41,935	34,880	69,203	35,396	86,113	4,279

Our long-term debt is secured by certain property, plant and equipment with a book value of US$36.8 million.

As of June 30, 2007, our short-term and long-term capital lease obligations were US$8.5 million and US$9.3 million, respectively.

Off-balance sheet arrangements

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

Qualitative and Quantitative Disclosures About Market Risk

We are exposed to market risk from adverse movements in foreign currency exchange rates and changes in interest rates on our obligations. Our overall risk management objective is to reduce the potential adverse effects of these risks on our financial performance; however, we do not maintain any formal hedging programs beyond management of credit risk.

Credit Risks. Financial assets, which potentially subject our entities to credit risk, consist principally of trade receivables. We have policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Credit risks related to accounts receivable are systematically monitored and are considered when impairment provisions are created. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk.

During the six months ended June 30, 2007 and 2006 and the years ended December 31, 2006 and 2005, a significant portion of our revenues came from LUKOIL:

As of June 30,		As of December 31,	
2007	2006	2006	2005
(in thousands of US$)			
550,824	447,002	956,759	560,783

Our receivables are subject to differing payment terms negotiated by us at the time we enter into a sales contract. Our average payment period is 30 days from invoice. We regularly monitor the ageing of our receivables and perform credit analysis of customers with whom we work infrequently.

Interest rate risk. While two of our borrowings currently carry a variable interest rate, we may in the future borrow additional funds at a variable interest rate. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). At the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the group over the expected period until maturity.

Foreign currency risk. Our principal exchange rate risk involves changes in the value of the Russian ruble relative to the US dollar. At June 30, 2007, US$102.6 million, or 37.7%, of our long-term financial liabilities, including the current portion of our long-term debt, was denominated in US dollars. See Note 9 to our Unaudited Interim Financial Statements and Note 10 to our Audited Consolidated Financials Statements for further information on the basis of determining the fair value of our debt. Decreases in the value of the Russian ruble relative to the US dollar will increase our foreign currency denominated costs and expenses and our debt service obligations for foreign currency denominated borrowings in Russian ruble terms.

A hypothetical, instantaneous and unfavorable 10% change in currency exchange rates as of June 30, 2007 would have resulted in an estimated foreign exchange loss of US$18.8 million on foreign currency denominated long-term financial liabilities held as of June 30, 2007.

Recent Accounting Pronouncements

In February 2007, FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*". This Statement expands the possibility of using fair value measurements and permits enterprises to choose to measure certain financial assets and financial liabilities at fair value. Enterprises shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent period. The Statement is effective in the first quarter 2008. We are currently assessing the effect of adoption of SFAS No. 159.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)". This Statement requires an employer that sponsors one or more single-employer defined benefit plans to: (a) recognize the funded status of a benefit plan in its statement of financial position; (b) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost; (c) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions); (d) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior

service costs or credits, and transition asset or obligation. The provisions of this Statement are effective December 31, 2006, except for the requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end, which is effective December 31, 2008. The adoption of the provisions of SFAS No. 158 did not have a material impact on our results of operations, financial position or cash flows.

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurement",* which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. This Statement does not require any new fair value measurements but is expected to increase the consistency of those measurements. We are required to adopt the provisions of SFAS No. 157 in the first quarter of 2008 and do not expect any material impact on our financial statements upon adoption.

In June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*" (FIN 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *"Accounting for Income Taxes"*. We adopted the provisions of FIN 48 in the first quarter of 2007, which did not have a material impact on our results of operations, financial position or cash flows.

In June 2006, the FASB ratified the consensus reached by the EITF on Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)". The consensus requires disclosure of either the gross or net presentation, and any such taxes reported on a gross basis should be disclosed in the interim and annual financial statements. We adopted the provisions of EITF Issue No. 06-3 in 2006. The adoption of the Issue did not have a material impact on our financial statements.

INDUSTRY

Unless indicated otherwise, the market and competitive data in this section has been prepared by Douglas-Westwood. Douglas-Westwood compiled the historical data presented in this section from a variety of published and in-house sources, including interviews and discussions with market participants, market research, web-based research and competitor annual accounts. Douglas-Westwood compiled their projections for the market and competitive data beyond 2006 in part on the basis of such historical data and in part on the basis of assumptions and methodology which we believe to be reasonable.

We confirm that the information provided by Douglas-Westwood and other third parties has been accurately reproduced and, so far as we are aware and have been able to ascertain from information published by those third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nonetheless, in light of the absence of publicly available information on a significant proportion of participants in the industry, many of whom are small and/or privately owned operators, the data on market sizes and projected growth rates should be viewed with caution. Additional factors, which should be considered in assessing the usefulness of the market and competitive data and, in particular, the projected growth rates, are described elsewhere in this Prospectus, including those set out in the section headed "Risk Factors" on page 6 of this Prospectus.

The Russian Oil and Gas Industry

Hydrocarbon Reserves and Production Overview

According to the BP Statistical Review of World Energy published in June 2007 (the "BP Review"), Russia's proved oil reserves were estimated at 79.5 billion barrels at the end of 2006, which corresponded to 6.6% of the world's total proved reserves, and Russia's gas reserves amounted to 280.3 billion barrels of oil equivalent ("BOE") at the end of 2006 using a standard conversion ratio of 6,000 cubic feet per barrel, which corresponded to 26.3% of the world's overall gas reserves. Russian oil and gas reserves thus made up around 16% of the world's combined oil and gas reserves at the end of 2006.

Russia's oil production was estimated by the BP Review at 9.8 million barrels per day for the year 2006, representing 12.3% of the world's total oil production, an increase of 2.2% over the 2005 production. With estimated oil production of 10.9 million barrels per day in 2006 only Saudi Arabia is currently producing more oil than Russia. In addition, Russia is the world's largest producer of natural gas with an estimated production of 612.1 billion cubic meters in 2006, an increase of 2.4% over 2005 production. Russian oil and gas production represented approximately 16.0% of the world's combined oil and gas production in 2006, commensurate with the country's share of the world's combined oil and gas reserves.

Most of the Russian oil and gas production is located in Western Siberia, while the Volga-Urals region is the oldest and most depleted region. Timan-Pechora in the Far North and Sakhalin in the Far East are hydrocarbon regions that are in their initial stages of production. There are also undeveloped new regions with large potential in the Northern Caspian region and Eastern Siberia. It is expected that Eastern Siberia's oil and gas fields will gradually start entering production once the necessary infrastructure investments have taken place.

Hydrocarbon Production by Region

Western Siberia. The majority of Russia's oil and gas production increase over the past decade in terms of geography has come from Western Siberia. In 2006, this region accounted for over 60% of the country's oil production and it is well developed in terms of infrastructure and export capacities. A large share of the production in the region is associated with the TNK-BP-operated Samotlor field, which, however, is now in production decline. The increase in the production growth over recent years can be attributed to the development of the Krapivinskoye and the Verkh Tarskoye fields. In addition, growing investments into the oilfields through increasing investments in oilfield services and the renewed maintenance of production assets have contributed to the production increase. The introduction of new technologies and Western business practices is expected to be the main driver behind the region's production growth going forward.

Volga-Urals. Volga-Urals is the most mature Russian region with few upcoming greenfield developments. Production of the largest field — Romashkino — is in decline. Major operators in the region are employing enhanced recovery techniques to maximize oil production from what is considered a region in production decline. Without the significant recent investments, Volga-Urals would already be in significant production decline. Despite such investments, volumes are expected to decrease after the year 2011. The region has significant infrastructure and export pipelines in place, built up during the Soviet era.

Timan-Pechora. The Timan-Pechora region accounts for about 8% of Russian hydrocarbon reserves. However, much of the eastern part of the onshore portion of the region is located in the Nenetsk Autonomous Oblast, whose full reserves and production potential is yet to be determined. Unlike the developing region of Eastern Siberia, Timan-Pechora has a significant amount of infrastructure in place, enabling the transportation of produced hydrocarbons to major demand centers.

Eastern Siberia. Development of oil and gas fields in Eastern Siberia has only recently begun and first commercial production in small quantities from minor fields is expected over the coming years. Larger developments will only be accessed towards the end of this decade, requiring major investments in the pipeline infrastructure in order to export production from the isolated region to demand centers. Due to a multitude of logistical problems and harsh environmental conditions, this will require the application of advanced oilfield services ("OFS") technologies. Recent issues surrounding a proposed pipeline from the region to the Pacific Ocean delayed possible production from Eastern Siberian fields, but this project is now underway and should drive the development of new major fields, including the large TNK-BP operated Verhnechonskoye field, holding approximately 1.5 billion barrels of crude oil (using a standard conversion ratio of 7.3 barrels per ton) and 100 billion cubic meters of gas. Other large future developments currently planned include the Yurubcheno-Tokhomsk zone, Vankor, Kovykta and Talakan.

Market participants in Russia

Excluding state-owned natural gas monopoly Gazprom, LUKOIL was the largest producer of oil and gas in Russia with an annual production of 751.5 million BOE in 2006. LUKOIL thus represented a total of 19.4% of Russia's oil production and 2.2% of the world's oil production in 2006. Behind LUKOIL, Rosneft was the second largest hydrocarbon producer with an annual production of 684.3 million BOE in 2006 (excluding production from the recently acquired Yukos assets), followed by TNK-BP with 585.3 million BOE and Surgutneftegaz with 572.4 million BOE.

Whilst the production data is accurate for Russia itself, some Russian oil companies operate also outside of the country. The production from these foreign operations is not included in the data set forth herein. Whilst these levels of production are fairly low relative to that of the operators' domestic activities, these are likely to increase as future development opportunities arise and planned projects come onstream.

In terms of oil and gas drilling activities, Surgutneftegaz is the most active market participant with an estimated 3.2 million meters drilled in 2006. LUKOIL (which, for purposes of this calculation, includes all of its subsidiaries and joint ventures operating in the Russian onshore market) has the second largest demand for drilling services, having commissioned the drilling of a total of almost 2.2 million onshore meters in Russia in 2006 (of which approximately 92.5% was performed by the Company).

The Russian Oilfield Services Market

Overview

For the purposes of Douglas-Westwood's study, the core OFS market is defined to include drilling, workover, technology services and formation evaluation. The Company is present in drilling, workover and certain technology services.

- Drilling includes operations and processes necessary to produce a subterranean well that can be used to explore and/or produce hydrocarbon reserves.
- Workover processes involve performing major maintenance, production enhancements or other treatments on an oil and gas well.
- Technology services include well completion, fishing, milling, drilling fluids, completion fluids, drill bit programs, cementing, casing, tubing and measurement-while-drilling services.

Market Size

In 2006, the Russian OFS market (including services performed by in-house OFS providers, but excluding for the purposes of this calculation formation evaluation services) is estimated at approximately US$10.7 billion and is forecast to rise to approximately US$27.4 billion by 2011, representing a CAGR of 21%. In the period from 2006 through 2011, drilling services are expected to show a CAGR of 27%, workover services of 16% and technology services of 20%, all in real terms. In the period from 2006 through 2011, the OFS market in each of

Western Siberia and the Volga-Urals region is expected to increase by an average CAGR of 13%, compared to an increase by an average CAGR of 50% for Eastern Siberia and 21% for Timan-Pechora, all in real terms. Expected growth is driven primarily by increased rates for drilling and workovers as oil companies start to produce from regions including Eastern Siberia and Timan-Pechora where infrastructure and increased drilling depths, as well as more harsh environmental conditions, cause development and production costs to rise.

Market Participants

Historically, Russian oil exploration and production companies maintained in-house OFS providers. In the late 1990s, in order to focus their attention on reserves growth and production similar to their Western contemporaries, Russian exploration and production companies began to divest significant parts of their in-house OFS capabilities and hire third-party OFS providers. As a result, market opportunities presented themselves for both Russian independent and international OFS providers. Currently, the Russian OFS market comprises a mix of in-house, Russian independent and international providers. The following provides a brief description of the different types of OFS providers in Russia.

In-House OFS Providers. In-house OFS providers are subsidiaries or affiliates of major Russian oil and gas companies that perform oilfield services for their respective parent companies. Given the historical structure of the Russian oilfield services markets, most Russian oil and gas companies had their own in-house service capability, which some companies have been divesting as noted above. Recent disposals have occurred in drilling related markets as exploration and production companies seek to source services from the external market where sufficient competition, greater expertise and capability exist. Nevertheless, in-house oilfield services still represent a significant share of the Russian oilfield services activity today and are estimated to account for 48.2% of the total OFS market by revenue in 2006 (excluding manufacturing, but including formation evaluation). The larger in-house companies are RNGS (Rosneft), NvBN (TNK-BP), Burgaz (Gazprom) and Surgutneftegaz.

Russian Independent OFS Providers. There are a few large independent providers which have evolved from smaller companies or as a result of the divestiture of an in-house OFS business by a Russian oil and gas company. There are numerous small, independent providers in the market that primarily serve local areas or regions. Independent providers represented approximately 34% of the OFS market by revenue in 2006 (excluding manufacturing, but including formation evaluation). The larger independent companies and their respective shares of the total OFS market by revenue in 2006 (excluding manufacturing, but including formation evaluation) are: the Company (8.7%), Integra (3.5%), SSK (2.5%), SGK (1.6%) and PetroAlliance Services Company Limited ("PetroAlliance") (2.1%). SGK and PetroAlliance are owned by, and together with, Schlumberger hold approximately 12.6% of the total OFS market by revenue in 2006 (excluding manufacturing, but including formation evaluation). The larger independent companies offer services in the mid-range in terms of price and quality and are capable of handling a high volume of core services. Small independent providers represent approximately 19.4% of the total OFS market by revenue in 2006 (excluding manufacturing, but including formation evaluation). These providers operate on a small scale and generally perform basic services at lower prices.

International OFS Providers. International OFS providers such as Schlumberger and Halliburton have been active in the Russian market for over a decade and are generally focused on a relatively small number of applications that require specialist technology and skills that set them apart from Russian OFS providers and that generally command higher prices. Some Western providers, in particular, Schlumberger, have acquired Russian OFS providers to gradually move into the core services business. In 2006, approximately 17.8% of the total Russian OFS market by revenues (excluding manufacturing, but including formation evaluation) was attributable to Western companies, including Schlumberger (12.6%), Halliburton (1.9%), Baker Hughes (1.2%) and Weatherford (0.5%).

OFS Market by Region

Reservoir characteristics, environmental conditions and geology play a significant role in determining the nature, complexity and type of OFS services provided within each major onshore oil and gas region in Russia.

Western Siberia. Western Siberia is the most important oil and gas producing region in Russia and accounts for the majority of OFS expenditure. Although the region is becoming increasingly mature and production is peaking, it is expected to remain the single largest OFS market in the long term. Easy to recover oil reserves have been developed and reservoirs are depleting quickly due to enhanced recovery techniques applied in recent years. Among the onshore oil and gas regions, Western Siberia is characterized by relatively "soft" geology that is easier to drill,

well developed with good infrastructure in place, concentrated activity levels and few surface barriers on the tundra. In 2006, the average cost per meter drilled in Western Siberia was approximately US$350 and the average workover cost was approximately US$57,000 per well. In 2006, Western Siberia accounted for 68.4% of Russia's total onshore OFS expenditures and it is expected to account for 49.2% of Russia's total onshore OFS expenditures in 2011 as other regions grow. The region is expected to grow at a 13% CAGR, from 2006 to 2011 in real terms.

Volga-Urals. The Volga-Urals is the most mature of the Russian regions with few greenfield developments anticipated. The largest field is in production decline and major operators in the region are employing enhanced recovery techniques to maximize production. Total OFS expenditure in 2006 (excluding manufacturing and formation evaluation services) is estimated to have been US$1.5 billion, which represented approximately 14% of such expenditure in Russia, and is expected to increase by 86.7% to US$2.8 billion in 2011 in real terms. Overall, the OFS services market in the region is expected to grow at a 13% CAGR from 2006 to 2011 in real terms. Costs are expected to remain flat or decline slightly. The average cost per meter drilled in 2006 was approximately US$530 and the average workover cost in 2006 was approximately US$72,000 per well.

Timan-Pechora. Timan-Pechora is located in the far north of Russia and delivery of OFS services is challenging, both from a technical and logistical perspective due to harsh weather conditions. Approximately 12.0% of Russia's hydrocarbon production originated from this region in 2006, although the full potential of the eastern part of the basin located in the Nenetsk Autonomous Oblast is unknown. The average cost per meter drilled in 2006 was approximately US$650 and the average workover cost was approximately US$72,000 per well. Total OFS expenditure (excluding manufacturing and formation evaluation services) is estimated to have been approximately US$573 million in 2006, which represented approximately 5% of such expenditure in Russia. Timan-Pechora is forecast to account for approximately 5.4% of total OFS expenditure in Russia in 2011. Timan-Pechora is expected to show significant growth throughout the 2006 to 2011 period with a CAGR of 21% in real terms. A large proportion of this growth is expected to stem from drilling and workover services. Increasing rig rates and deeper wells are a natural catalyst in the region.

Eastern Siberia. Eastern Siberia is an oil and gas producing region in the early stages of development. The region suffers from a lack of transportation infrastructure, the rocky and heavily forested landscape and the generally deeper, more complicated reservoirs compared to other onshore oil and gas regions in Russia. Logistics and mobilization of rigs and crews significantly affect costs in the region and, as result, the drilling costs in Eastern Siberia are much higher than those in the more mature oil and gas producing regions in Russia. The average cost per meter drilled in 2006 was approximately US$1,900, the most expensive in Russia. The average workover cost in 2006 was approximately US$446,000 per well. Production in the region is expected to begin as new major oil and gas fields, including Vankor, Verhnechonsk and Kovykta are developed. Extraction of oil and gas from this region is contingent on successful construction and completion of the routes to market such as the Eastern Siberia — Pacific Ocean pipeline currently under construction. Total OFS expenditure in Eastern Siberia is expected to be US$7.2 billion in 2011 in real terms, a CAGR of 50%. In 2011, Eastern Siberia is expected to account for as much as 26.1% of total OFS expenditure (excluding manufacturing and formation evaluation services) in Russia, a significant increase over its estimated 8.8% share of this market in 2006.

Other regions. Outside the main oil and gas producing regions in Russia, additional onshore production is located in the Northern Caucasus and Sakhalin. Other minor production activities exist throughout the country. Over the next five years, these regions are expected to see growth, particularly approaching the year 2011 when Sakhalin production is anticipated to increase. By 2011, these regions are forecast to account for 9.2% of the country's total OFS expenditure compared to 3.6% in 2006. By 2011, almost US$2.5 billion is expected to be spent per year in comparison to spending of approximately US$387 million in 2006. This projected increase in expenditure by 2011 is premised upon an increase in seismic activity resulting in the discovery of accessible hydrocarbon resources which were previously seen as uneconomic.

OFS Market by Service

Drilling

Drilling includes operations and processes necessary to construct a subterranean well that can be used to explore and produce hydrocarbon reserves. Exploration wells are drilled in locations where seismic studies have identified potential for hydrocarbon-bearing geological structures and an exploration license has been obtained. On average, only around 10% of exploration wells drilled globally yield commercial hydrocarbon production, although many more flow at sub-commercial rates. Development wells produce commercial quantities of hydrocarbons from subterranean reservoirs and are drilled after volumes sufficient to justify development have

been proven and a production license has been obtained. The number and location of development wells depends on the quality, lateral extent and thickness of the reservoir — if it will flow strongly or weakly and if there are barriers to flow — and also on the characteristics of the planned development. Wells can be vertical, horizontal or deviated (drilled at an angle), configured in a grid or on a pad (in a marshy region all well-heads are drilled from one common, artificially created platform), require extraction or injection (where water or gas are injected back into the reservoir to keep production pressure constant), depending on the reservoir and field development plan, and involve varying degrees of drilling complexity.

Of the total Russian onshore OFS expenditures in 2006, drilling rig and crew accounted for approximately 20%. A fairly constant increase in expenditures is expected in the market for drilling services, growing from US$2.2 billion in 2006 to US$7.3 billion by 2011 in real terms, representing a 27% CAGR.

The total volume of exploration and production drilling in Russia is estimated to have been 12.3 million meters in 2006 and is expected to increase by 54% to approximately 19.0 million meters in 2011. These growth projections are consistent with an expected 10.0% increase in Russian oil and gas production from 7.9 billion barrels in 2006 to 8.7 billion barrels in 2011. In addition, the shift in the volume of exploration and production drilling to higher cost regions such as Eastern Siberia and Timan-Pechora will have a beneficial effect on the overall OFS market size.

The majority of overall cost growth of oilfield services is expected to come from increased costs for drilling rigs and crews. These costs are estimated to grow at a 27.0% CAGR between 2006 and 2011 in real terms. Deeper wells and more extreme environments as a result of increased drilling activity in regions such as Eastern Siberia are expected to lead to increased rig specifications. New-build rigs equipped with Western technologies will command higher rates. Likewise, wells will take longer to drill. Other costs associated with drilling services, such as the cost of equipment transport and logistics, are expected to increase by a 20.0% CAGR between 2006 and 2011 in real terms, similar to rig and crew costs. These increased costs relate to the lack of infrastructure as equipment often has to be air-lifted to and from the job site resulting in additional time and expense.

Of the estimated 12.3 million meters drilled in Russia in 2006, the Company accounted for approximately 20%. The Company is thus the largest independent participant in the market. Beyond the Company and some of the larger independents, the market appears fragmented, with many smaller market participants largely servicing individual local regions.

Workover

Workover processes involve performing major maintenance, production enhancements or other treatments on an oil or gas well. This includes current and capital repair of the well that involves the removal, repair, and replacement of the production tubing string after a workover rig has been placed on location. Some workovers (through-tubing operations) can be performed without removing the production tubing, while others require a full refit of the "string" which is considerably more expensive.

Expenditures in relation to workover rig and crew accounted for approximately 26% of total Russian onshore OFS expenditures in 2006 (excluding manufacturing and formation evaluation). A fairly constant increase in expenditures is expected for workover services, growing from approximately US$2.7 billion in 2006 to approximately US$5.9 billion in 2011 in real terms, representing a 16% CAGR. The increase in the market size is primarily the result of the increasing importance of higher cost regions such as Eastern Siberia while at the same time the number of workovers is expected to decline slightly.

The number of workovers is projected to slowly decrease between 2006 and 2011 primarily as a result of technological improvements and new business strategies. For example, the adoption of Western field development strategies increases the efficiency and run life of downhole tools. Also, the presence of Western technology in the market brings electric submersible pumps with longer lifespans, more accurate logging capabilities and the knowledge and experience of ensuring a workover is carried out to a high standard. Over 91,500 workover operations are estimated to have been carried out in Russia in 2006 and this number is expected to increase to around 93,000 by 2011, assuming a fairly stable production well stock increasing only at a CAGR of 0.3% between 2006 and 2011. For purposes of the Douglas-Westwood study, workovers encompass all major well interventions to the active well stock from the pulling of an electric submersible pump to a complete re-perforation and re-completion of a well. Each workover can last from a few days to a few weeks depending on its complexity.

Of the approximately US$2.8 billion workover services market in Russia, the Company is estimated to have a share of approximately 2.0% at the end of 2006. Other significant players in the workover segment include Integra and SGK.

Technology Services

Technology services include well completion, fishing, milling, drilling fluids, completion fluids, drill bit programs, cementing, casing, tubing and measurement-while-drilling services. Although the Company includes certain of the technology services, such as, for example, completion and drill bit management, in its drilling services offering, it does not provide technology services as a separate offering. The market for these services is expected to increase from an estimated value of approximately US$5.1 billion in 2006 to approximately US$12.7 billion by 2011 in real terms, representing a 20% CAGR.

Expenditures in relation to technology services accounted for approximately 48% of total Russian onshore OFS expenditures in 2006. The majority of technology service expenditure is incurred in Western Siberia, representing 70% of the overall technology service segment. As the frontier regions are brought onstream by 2011, this portion is likely to fall to 52% by this year at which point Eastern Siberia is likely to have grown to account for 22% of expenditure as opposed to 7% in 2006.

Growth is forecast throughout all areas of technology services, but in particular directional drilling. As the water cut continues to increase (many wells now produce as much as nine barrels of water for each barrel of oil), enhanced recovery methods, such as directional drilling technologies, become increasingly important.

The market for technology services is partially attributable to the Company. The Company offers the following services (not consistently throughout all regions in which the Company is active): directional drilling, drill bit management, drilling fluids, casing, tubing services, completion, fishing, milling, remedial cementing and drilling fluids.

Formation Evaluation

Formation evaluation services include perforation, production logging, drilling logging, mud logging and seismic acquisition services. EDC does not provide formation evaluation services.

Market Trends and Factors Influencing the OFS Market

The following represent key market trends and factors that are expected to influence the growth of the Russian OFS market in the foreseeable future:

- *Sustained oil prices.* Sustained oil prices provide an incentive for oil and gas companies to improve their efficiency in an effort to increase oil production. The high oil prices of recent years have positively influenced drilling activity and associated OFS expenditure.
- *Significant oil and gas reserves.* Over half of Russia's total resources can be attributed to prospective developments. A large quantity of oil and gas reserves is left to be produced, suggesting a sustainable OFS industry at least in the medium term.
- *New, harsh environments.* The era of production growth from conventional oil is ending and operators are being pushed to develop the Eastern Siberia and Timan-Pechora regions where currently costs are higher. The lack of regional logistics and extreme conditions require more specialized techniques and equipment, creating upward pressure on expenditure.
- *Move to Western practices.* Since the turn of the millennium, oil companies have strived to change business practices in line with Western models in order to improve efficiency and production. We believe that companies are investing more time and money to ensure improved quality of equipment and services.
- *Modernization of existing assets.* The existing Russian rig fleet is expected to reach the end of its useful life over the next few years and we believe that inactive rigs are being cannibalized for spare parts and upgrades to the existing fleet. Strong growth in newbuild rig construction will be a requirement to ensure continued oil and gas production growth.
- *Enhanced oil recovery.* Russia's oil and gas fields are maturing and, as such, water cut is increasing, negatively impacting oil production. Services such as logging techniques and deviated drilling are becoming more common as operators strive to enhance oil recovery in current market conditions. Artificial lift is believed to be used in the majority of Russian onshore wells.

BUSINESS

Overview

According to Douglas-Westwood, we are the largest independent provider of onshore drilling services in Russia, as measured by the number of meters drilled, providing onshore integrated well construction services and workover services. In addition, we provide offshore drilling services in the Caspian Sea. We offer our onshore integrated well construction services and workover services to local and international oil and gas companies primarily in Russia and our offshore drilling services to Russian and international oil and gas companies in the Russian, Kazakh and Turkmen sectors of the Caspian Sea.

We entered the onshore drilling and workover services business in December 2004 by acquiring substantially all of the onshore drilling and certain related assets of LUKOIL. In 2006, we entered the offshore drilling business by acquiring the offshore drilling business of LUKOIL, which included "Astra", a floating jack-up drilling rig located in the Caspian Sea. According to Douglas-Westwood, as at December 31, 2006, we had an estimated market share of approximately 20.3% of the onshore drilling services market in Russia, as measured by number of meters drilled.

For the six months ended June 30, 2007, we had total revenue of US$673.5 million, EBITDA of US$136.3 million and net income of US$78.5 million. For the year ended December 31, 2006, we had total revenue of US$1,087.6 million, EBITDA of US$166.0 million and net income of US$90.8 million.

Our business is currently organized within two main divisions, onshore and offshore drilling services. For the six months ended June 30, 2007, we had total revenue of US$658.0 million with respect to our onshore division and total revenue of US$15.4 million with respect to our offshore division.

Our onshore drilling services include the construction of production, exploration and appraisal oil and gas and certain other types of wells, including vertical, deviated and horizontal wells, ranging from a depth of approximately 1,200 to more than 5,000 meters. In addition, through the onshore division we provide a wide range of workover services, including sidetracking. We provide our onshore drilling services in several major onshore oil and gas regions of the Russian Federation — Western Siberia, Timan-Pechora and Volga-Urals — and have recently begun to provide onshore drilling services in Kazakhstan on a limited basis.

Our offshore division constructs oil and gas exploration and production wells in waters with depths of up to 45 meters. We provide our offshore drilling services with our Astra jack-up rig. In the six months ended June 30, 2007, we drilled a total of one exploration and two production wells in the Russian and Turkmen sectors of the Caspian Sea.

In addition to LUKOIL, our customers include a number of the major Russian and international oil and gas companies operating in Russia and the Caspian Sea, such as Rosneft, Gazpromneft, TNK-BP, Total, Shell and Naryanmarneftegas, a joint venture between LUKOIL and ConocoPhillips.

Recent Developments

In furtherance of a letter of intent dated September 7, 2007, on October 2, 2007, BKE and SLI entered into an Asset Sale Agreement pursuant to which BKE agreed to purchase from SLI 28 workover rigs and certain other assets for the total consideration of US$37.7 million, including 18% value added tax, and SLI agreed to (i) use its best efforts to assign certain of its workover contracts in Russia to BKE, (ii) use its best efforts to ensure the hiring of SLI's workover personnel in Russia by BKE and (iii) lease certain of its assets in Russia to BKE. Pursuant to the letter of intent and the agreement, the consideration is payable in three installments, of which the first installment in the amount of approximately US$7.5 million was paid on September 17, 2007, the second installment in the amount of approximately US$26.4 million was paid on October 8, 2007 and the third installment in the amount of US$3.8 million is payable no later than December 15, 2007. The transaction is expected to close in the fourth quarter of 2007.

Competitive Strengths

We believe our key competitive strengths are as follows:

Largest independent onshore drilling contractor in Russia

In 2005 and 2006, we drilled 1,699 thousand meters and 2,495 thousand meters of onshore oil and gas wells, respectively, and, according to Douglas-Westwood, are the largest independent onshore drilling contractor in Russia, as measured by the number of meters drilled. According to Douglas-Westwood, as at December 31, 2006, we had an estimated market share of approximately 20.3% of the Russian onshore drilling market. The scale of our operations, which as of June 30, 2007 comprised 184 land drilling rigs and 106 drilling crews, has allowed us to gain in-depth experience in managing large-scale complex development and exploration drilling programs in substantially all of Russia's main onshore oil and gas regions. Such experience has resulted in large Russian oil and gas companies, such as Rosneft and Gazpromneft, relying on us to drill onshore wells for their upstream oil and gas operations. We believe such companies rely on us for such services because of our track record, knowledge of local geological conditions, understanding of clients' requirements and ability to provide a full range of drilling services.

Centralized management with diverse geographical presence in key oil and gas producing regions of the Russian Federation

Russia's major oil and gas regions are located in some of the most remote areas of the country, each covering vast territories. Mobilizing drilling equipment to these remote and geographically diverse areas without the benefit of a developed infrastructure poses significant challenges. We believe we have a well developed infrastructure with operating bases in 12 cities and towns in Russia, including such traditional centers of the Russian oil and gas industry as Kogalym, Usinsk, Perm and Astrakhan. From our operating bases, we are able to support mobilization of our drilling equipment and crews to existing and new customers. Also, as a result of our drilling experience in such areas, we have gained in-depth knowledge of such areas' geology, which allows us to compete more effectively with other Russian and international drilling contractors. Furthermore, our historical focus on Western Siberia, which, according to Douglas-Westwood, as at December 31, 2007, held approximately 70% of Russia's proved oil reserves and accounted for approximately 60% of Russia's oil production, provides a solid base for the stable future development of our business. Finally, with our headquarters in Moscow, we believe that we successfully combine centralized management and control, which results in streamlined decision making processes, with fully integrated drilling operations that span substantially all of Russia's key oil and gas producing regions.

Strategic relationship with LUKOIL

Prior to our acquisition of LUKOIL's onshore drilling business, it had operated as LUKOIL's in-house drilling division and supplied virtually all of LUKOIL's drilling requirements. To ensure that such requirements continued to be satisfied, as a part of the acquisition, we entered into the LUKOIL Framework Agreement whereby LUKOIL has committed to utilize our onshore drilling services from January 2005 through December 2009, subject to our drilling at least a total of 6,500,000 meters during such five-year period. We estimate that in the year ended December 31, 2006, we met approximately 92.5% of LUKOIL's onshore drilling services requirements in Russia, having drilled 2,033,900 meters pursuant to both the LUKOIL Framework Agreement and agreements entered into with other members of the LUKOIL group. We believe that LUKOIL will continue to look to us to provide a substantial portion of the drilling services required by its upstream operations and expect to agree upon a multi-year extension of this arrangement with LUKOIL. The benefits we derive from our continuing affiliation with LUKOIL include the ability to implement a long-term investment program and our ability to strengthen our reputation as a trustworthy drilling contractor capable of undertaking large-scale drilling projects.

Experienced management team and highly-qualified workforce

Our core management team has significant experience in the drilling services industry in Russia and the Caspian Sea. For instance, Alexander Djaparidze, our Chief Executive Officer and one of our founders, has worked in the Russian oilfield services industry for almost 30 years, and, prior to founding the Company, he was the President of PetroAlliance, which was subsequently sold to, and became a wholly owned subsidiary of, Schlumberger. We have also benefited from our high-quality workforce and secure relationship with our employees. A significant number of our crew members are second- or third-generation drilling professionals who have worked for the predecessor entities of BKE, which we believe fosters an accumulation of valuable technical expertise and promotes the traditions of quality and reliability of our services. We have developed an extensive system of training and educational development programs, including a system of in-class education for our employees at our own training centers, which we believe helps our employees to outperform their peers working for our competitors. We believe that the skill, professionalism and commitment of our workforce have been, and will continue to be, key to the implementation of our growth strategy.

High-quality asset base

As of June 30, 2007, our rig fleet was comprised of 184 drilling rigs and 58 workover rigs. According to Douglas-Westwood, our rig fleet is relatively young when compared to the Russian drilling industry average. Only 6% of our rigs have been in operation for more than 20 years, compared to the industry average of 13%. Approximately 74% of our drilling rigs are in the middle range of 15 to 20 years. Approximately 12% of our rigs have been in operation for less than ten years. Our rig fleet possesses the range of technical characteristics that allows us to drill wells of all depths that are common in the regions of Russia where we operate. All of our drilling and workover rigs are certified to be in operating condition. Finally, our drilling rig fleet is distributed among each of the key oil producing regions of Russia. This enables us to respond quickly to shifts in demand from customers in the Russian onshore oil and gas industry.

Strategy

The key components of our strategy are as follows:

Increase our market share through organic growth and value-enhancing acquisitions

For the year ended December 31, 2006, we had an approximately 20.3% market share of the Russian onshore drilling services market, as measured by meters drilled, based on estimates of Douglas-Westwood. In the years ended December 31, 2006 and 2005, we drilled approximately 2,495 thousand meters and 1,699 thousand meters, respectively, of onshore oil and gas wells. Such increase in the number of meters drilled resulted primarily from our organic growth driven by the improved efficiency of our drilling operations, as measured by the number of meters drilled per crew, and the addition of new drilling crews. As we continue to respond to the growing market demand for drilling services, we expect the efficiency of our operations to further improve and the number of our drilling crews to continue to increase. At the same time, we will continue to adopt new drilling technologies in order to be in a position to satisfy our customers' demand for more technologically advanced and complex services. Moreover, while we have not relied on acquisitions to increase our share of the onshore drilling market historically, we believe we are now well-positioned to acquire and integrate drilling companies operating in Russia and other CIS countries which meet our financial and operating acquisition criteria, including a significant presence in a particular market and/or a high quality asset base.

Expand our offshore drilling services business

As demand for offshore drilling services in the Caspian Sea continues to increase, we intend to grow our offshore business both organically, by acquiring or building an additional jack-up drilling rig that will operate in the jack-up segment of the Caspian Sea market, and by pursuing other opportunities for expanding our capacity in the Caspian Sea. We will also consider long-term opportunities for expanding our offshore business in other areas of Russia's continental shelf.

Secure access to new land rigs through a joint venture

The Russian oil and gas industry is expected to continue to experience an acute shortage of land drilling rigs in the short- and medium-term with manufacturing lead times for new rigs expected to range from 12 to 18 months. We plan to contract for the acquisition of approximately 10 to 12 new land drilling rigs a year through 2011 to support our business expansion and improve our asset base. In order to ensure security of supply of, as well as favorable prices for, new drilling rigs, we intend to create a rig manufacturing joint venture with a subsidiary of LUKOIL, in which LUKOIL will provide access to its manufacturing capacity at one of its facilities in Russia. The joint venture is expected to contract with a reputable Western designer and manufacturer of land drilling rigs that will provide rig designs and parts. We expect that the joint venture will be capable of assembling one land drilling rig in 2008.

Grow our customer base

Prior to acquiring our onshore drilling services division, it provided drilling services to substantially one customer — LUKOIL, its former parent company. While we continue to derive significant benefits from our strategic relationship with LUKOIL, including the benefits afforded to us by the LUKOIL Framework Agreement, we believe that the value of our business will increase if we pursue the strategy of increasing the share of other large Russian and international oil and gas companies operating in Russia in our customer portfolio. In line with this strategy, in the year ended December 31, 2006, of a significant number of requests for

proposal received, we chose to participate in 23 tenders for the provision of drilling, workover and related services, all of which resulted in our being awarded contracts, including contracts for the provision of services to Rosneft and Gazpromneft. Thus, while in the year ended December 31, 2006, LUKOIL, Gazpromneft and Rosneft accounted for approximately 81.5%, 17.0% and 0.27%, respectively, of the meters drilled by us, for the six months ended June 30, 2007, they accounted for approximately 77.0%, 16.0% and 6.0%, respectively, of the meters drilled by us.

Expand our workover services business to protect against temporary reductions in demand for drilling services

Historically, the onshore drilling services industry has experienced periods of declining demand for its services of varying duration. As a general matter, such declines are a function of falling oil and gas prices and the attendant reduction and reallocation of capital expenditures by our customers from the drilling of new wells to the oilfield services that allow our customers to maintain or increase oil and gas production from existing wells, such as workover services. We currently provide workover services on a limited basis in the Timan-Pechora and the Volga-Urals regions of Russia. We will seek to increase the volume of such services in these regions and expand the offering of such services in the Western Siberia region, with the goal of increasing our revenue during periods of strong demand for our drilling services, while ensuring sustainability of our revenue during periods of lower demand for drilling services. In furtherance of this strategy, on October 2, 2007, we entered into an Asset Sale Agreement with SLI for the acquisition of 28 workover rigs.

Expand the offering of higher margin horizontal drilling and sidetracking services

In the years ended December 31, 2006 and 2005, we drilled 146,718 and 46,208 meters of horizontal wells, respectively, and performed 42 and 37 sidetracks, respectively. Such increases are a function of our clients' growing demand for these more technologically advanced services that allow our clients to recover additional value from mature oil and gas fields, and we intend to expand our capacity to provide such and other related high value added high margin services.

Continue to improve our high-quality asset base

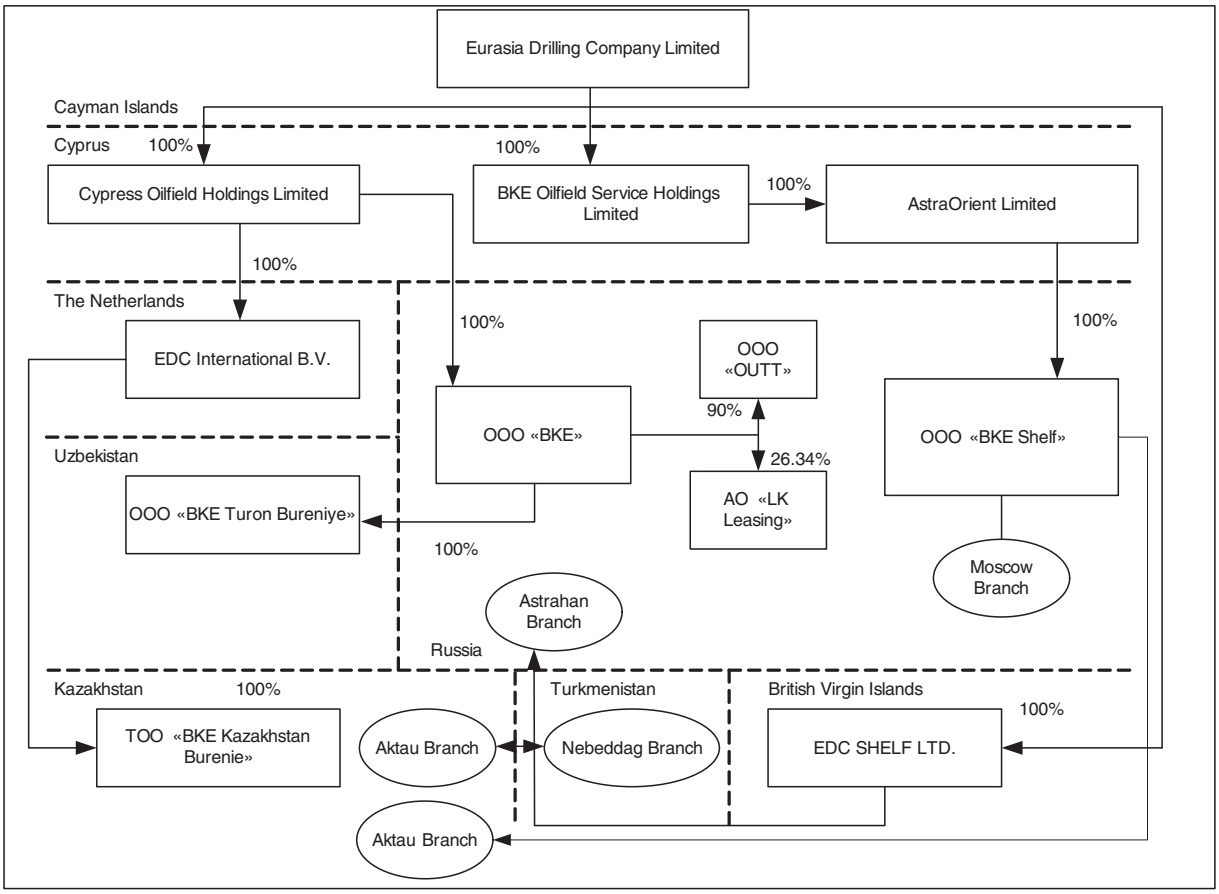
Oil and gas companies operating in Russia and the Caspian Sea are increasingly demanding drilling and workover services that utilize improved technologies and techniques to increase production of hydrocarbons while minimizing production costs. Such technologies include sidetracking, drilling of extended reach horizontal wells, underbalanced drilling and various recovery enhancing procedures. As such technologies prove their technological and economic value, clients make awarding new contracts for drilling and workover services conditional on their use. In such circumstances, we believe that the most successful drilling companies will be those that can offer their customers drilling and workover solutions that utilize advanced technologies in a cost efficient manner. Accordingly, with respect to our onshore drilling services division, we plan to continue to invest in upgrading and modernizing our existing land rig fleet and purchasing new state-of-the-art Russian and Western-made land drilling rigs. With respect to our offshore drilling services division, we intend to build or acquire an additional jack-up rig to be based in the Caspian Sea.

Focus on developing new markets in Russia and selectively pursuing opportunities in other CIS countries

While the Western Siberia and Volga-Urals regions of Russia have predominantly mature fields and developed drilling infrastructure, Eastern Siberia is a rapidly developing new area of significant interest to oil and gas companies. As part of state-supported efforts to ensure sufficient crude oil supplies for the Eastern Siberia — Pacific Ocean pipeline that is currently being constructed to satisfy the growing oil demand in Asia, oil companies have been granted various tax and other incentives to invest in exploration efforts in the Eastern Siberia region. It is expected that those drilling contractors which are in the best position to mobilize equipment and personnel to the East Siberia region will be able to secure premium pricing terms for their services. As such, we intend to begin participating in tenders for drilling and workover contracts in Eastern Siberia and to seek to develop the necessary infrastructure to effectively compete in the region. We will also continue to selectively pursue opportunities to offer our services in other countries of the CIS in which we can likewise provide services at relatively higher margins than in our core Russian markets.

Organizational Structure

The following chart sets forth our corporate structure, as of the date of this Prospectus, including the percentage ownership interest we have in each of our operating subsidiaries.



Business

According to Douglas-Westwood, we are the largest independent provider of onshore drilling services in Russia, as measured by the number of meters drilled, providing onshore integrated well construction services and workover services. In addition, we provide offshore drilling services in the Caspian Sea. We offer our onshore drilling, workover, sidetracking and completion services to local and international oil and gas companies primarily in Russia and our offshore drilling services to Russian and international oil and gas companies in the Russian, Kazakh and Turkmen sectors of the Caspian Sea. Our business is currently divided into two main divisions, onshore drilling services and offshore drilling services.

Onshore Drilling Services

Overview

Our onshore drilling services division provides services for the drilling and workover of oil and gas wells. These services are carried out, in Russia, by BKE through its Western Siberian, Perm, Nizhnevolzhsk, Usinsk and Naryanmar branches and, outside of Russia, by BKE Kazakhstan Bureniye in Kazakhstan and BKE Turon Bureniye in Uzbekistan.

Services Provided

Drilling. Our onshore drilling services include the construction of production, exploration and appraisal oil and gas and certain other types of wells, including vertical, deviated and horizontal wells, ranging from a depth of approximately 1,200 to more than 5,000 meters.

Below we present the number of wells constructed and the number of meters drilled by our onshore drilling services division for the six months ended June 30, 2007 and 2006 and the years ended December 31, 2006 and 2005.

	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
Meters Drilled (thousands)	1,533	1,202	2,495	1,699
Wells Drilled	548	423	898	652

Following is a brief description of the main types of onshore wells which we drill.

- **Exploration**. Exploration wells are drilled where an oil or gas field is suspected and a license to explore has been obtained. Based on, among other things, seismic data, target fields are identified and wells are drilled if such fields are judged to be potentially commercially attractive, based on the volume of expected reserves and the expected cost and ease of extraction. Exploration wells may result in discoveries of hydrocarbons, or they may not encounter hydrocarbons in economically producible quantities. The latter wells are generally known as dry holes.
- **Appraisal**. Appraisal wells are drilled to define the extent of a field after hydrocarbons have been discovered and to confirm the presence of sufficient volumes to justify production. If successful, such wells usually are suspended for future re-use as production wells.
- **Production**. Production wells are drilled to facilitate production on the field, after sufficient volumes of hydrocarbons to justify production have been proved and a production license has been obtained. Production well numbers and locations depend on the quality, lateral extent and thickness of the hydrocarbon bearing reservoir and also on the mode of development planned. Most production wells are used for production, although some may be designated injectors that are used to pump fluids into the reservoir to enhance pressure to support production.

The surface location of a well is chosen as the position that provides the easiest access to the subsurface target. Most of the recent advances in wells, especially production wells, have revolved around improving the way the drill bit can be steered towards and within its reservoir target, while at the same time protecting the reservoir from damage. Current drilling technology allows for wells to be directionally drilled to reach various parts of the target reservoir, thereby potentially substantially increasing production rates from a single well. Such wells are generically referred to as horizontal wells. Horizontal wells are intended to expose more of the reservoir for production and reduce unwanted gas or water production from thin reservoirs. Fewer wells are thus needed to achieve optimum production levels. Extended reach wells, which may be drilled horizontally for many kilometers, reduce the amount of surface infrastructure, allowing a greater reservoir area to be developed from a single location.

The following are the key tasks that our rig crews typically complete in order to bring oil from a subsurface hydrocarbon reservoir into production.

- **Drilling of the wellbore**. After surveying the area to ascertain the best location to drill, the wellbore is drilled at a speed dependent on the surrounding geology and to a pre-determined target depth calculated to best access the subsurface reservoir.
- **Directional drilling**. Complex downhole monitoring and control systems allow the well to deviate from a vertical line, targeting the reservoir in question and enabling the surface production infrastructure to be positioned above more favorable geology. Rotary steerable tools allow steering while rotating — creating smoother, more efficient boreholes.
- **Packer installation**. The packer is a device that expands downhole to create a seal between the production string (tubing) and production casing, holding it firmly in place. Some packers are designed to be permanent, whereas others can be removed.
- **Completions, including well testing**. Once a well has been drilled, various downhole operations are carried out to prepare for production. Completion hardware improves the safety and efficiency of hydrocarbon production by taking measurements downhole, filtering sand and water and/or artificially boosting the flow of oil and gas to surface (with, for example, electrical submersible pumps). The type of completion required depends largely on reservoir characteristics, depth and pressure.

The following operations also constitute integral parts of the well drilling process. However, such services are performed by other oilfield service providers, who either act as our subcontractors or are contracted directly by our clients for the provision of their respective services.

- **Logging**. Logging tools, which are designed to measure properties of the formation around the wellbore, are lowered into the borehole and measurements are taken to evaluate formation properties during excavation. Such measurements include resistivity, acoustic and nuclear magnetic resonance logs. A method known as "logging while drilling" enables logs to be run simultaneously with the drilling process.
- **Casing and cementing**. Pipe is lowered into the open hole and cemented in place. The casing is designed to withstand subsurface conditions such as high temperatures and horizontal pressure.
- **Production tubing**. Following the installation of the casing, the pipe is inserted through the length of the wellbore to carry hydrocarbons from the subsurface reservoir. Production tubing is connected to completion hardware employed to complete the production string.
- **Perforations**. Using jet perforating guns and explosive charges, perforations are made in the reservoir walls to enable oil and gas to flow into the production string. Other methods can include abrasive jetting or bullet perforating. Perforations are made at intervals to give greatest overall production from the well.

Workover. A workover is the process of maintaining, repairing or enhancing production from a well through various means. Some workovers (through-tubing operations) can be performed without removing the production tubing, while others require a full refit of the production string.

Below we present the number of workovers performed by our onshore drilling services division and the total number of workover crew hours for the six months ended June 30, 2007 and 2006 and the years ended December 31, 2006 and 2005 (including subcontracted crews).

	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
Number of Workovers Performed	1,059	1,410	2,707	3,531
Workover Crew Hours	187,454	230,201	411,406	553,236

The following are common workover tasks which we perform.

- **Remedial cementing**. Frequently, cementing operations are carried out on existing wells to repair initial flaws or reinforce points of weakness.
- **Tubing replacement**. If a workover operation requires the removal of the existing tubing, it must be replaced as part of the process.
- **Well cleanout**. This entails the removal of debris, sand, scale and organic materials from a well to improve the flow of hydrocarbons to the surface. Many reservoirs produce sand that is not carried to surface by the flow of hydrocarbons during production. The resulting accumulations can decrease production and are cleaned out periodically.
- **Re-completion**. Downhole completion hardware is exposed to high levels of temperature and pressure below the surface. Materials such as sand can clog and damage equipment. Re-completing a well may mean extracting the hardware and repairing or replacing it, in part or in its entirety. Alternatively, as downhole well conditions change over time (as a result of increased levels of watercut, for example) or as technology improves, different tools may be used or artificial lift hardware may be employed (such as electrical submersible pumps). Wells are often re-completed in different zones to enhance production.
- **Re–perforation**. Quite often, further holes are punched in the production casing in order to provide additional routes for the flow of hydrocarbons. This is a highly successful workover technique. However, when casing integrity is in question, it may be more suitable to use chemicals and fluid washes to unplug existing perforation holes, as additional perforations can decrease casing strength.

Sidetracking. We also offer a specialized workover service known as sidetracking, which is a form of deviated or horizontal drilling used to re–enter wells that have been abandoned or have low production rates and to drill around obstacles in the vertical well bore in order to enable enhanced oil recovery. Sidetracking requires the use of customized drilling rigs with lifting capacity of approximately 100 to 125 tonnes, of which we believe few are currently available in Russia.

For the six months ended June 30, 2007 and 2006 and the years ended December 31, 2006 and 2005, our onshore drilling services division performed 25, 18, 42 and 37 sidetracks, respectively.

Equipment and Technologies

As of January 1, 2007, our total land drilling rig fleet consisted of 178 drilling rigs and 58 workover rigs in Russia. As of June 30, 2007, we had 184 drilling rigs in service with lifting capacities of between 75 and 335 tonnes and 106 drilling crews. As of June 30, 2007, our workover operations had approximately 58 workover rigs in service and 32 workover crews. As of June 30, 2007, we also had 11 sidetracking crews, 43 completion crews and 35 rig-up crews. The following table summarizes the technical specifications of the various drilling rigs in our fleet as of January 1, 2007.

Nominal Drilling Depth (meters)	Derrick Height (meters)	Load Capacity (tonnes)	Equipment Capacity (horse power)		Number of Rigs	Rig Age (years since initial entry into service)	
			Drawworks	Pumps (pcs. X horse power)		<10 years	>10 years
Rigs with electric drive							
3900 – 5000	45 – 53	225 – 335	1000 –1500	2 x 1300 – 2 x 1600	17	4	13
3000 – 3500	41 – 45	200	750 – 910	2 x 816 – 2 x 1120	69	5	64
2000 – 2500	36 – 40,8	100 – 170	525 – 750	2 x 475 – 2 x 600	22	0	22
Rigs with diesel drive							
3000 – 4500	45 – 53	200 – 320	910 – 815	2 x 600 – 2 x 1020	37	6	31
2000 – 2500	36 – 45	75 – 160	525 – 950	2 x 525 – 2 x 700	24	2	22
Mobile rigs							
2700 – 3000	37 – 41	125 – 200	750 – 1000	2 x 636 – 2 x 1300	6	5	1
2000 – 2500	35 – 36	125 – 200	750 – 1020	2 x 636 – 2 x 815	3	2	1

The following table summarizes the technical specifications of the various workover rigs in our fleet as of January 1, 2007.

Mast Height (meters)	Mast Load Capacity (tonnes)	Drawworks Capacity (horse power)	Quantity	Rig Life	
				<10 years	>10 years
17.7 – 22	40 – 50	Up to 176	31	14	17
22	60 – 80	176	22	15	7
37	100	448,8	5	5	0

The majority of our drilling and workover equipment was manufactured in Russia, although certain drilling rigs were manufactured in Germany, Canada and the United States, while some mobile workover rigs with heavy lifting capacity and drilling units come from China. Approximately 66 of our drilling rigs have triplex pumps, 131 have Western manufactured solids control equipment and nine have top drive motors.

Capital Investment Program

In 2006, we contracted for the acquisition of nine new drilling rigs at total cost of approximately US$135.3 million and the modernization of nine of our older drilling rigs at total cost of approximately US$14.2 million. During the six months ended June 30, 2007, we contracted for the acquisition of one new drilling rig at a total cost of approximately US$9.1 million and the modernization of 12 of our older drilling rigs at total cost of approximately US$20.9 million.

We intend to continue to make targeted upgrades of our technologies to introduce systems that will improve the speed and/or accuracy with which we are able to drill. Overall, we expect to spend approximately US$16.0 million on the acquisition of these and other technologies in 2007.

Contracting

A significant part of our onshore drilling services is provided to LUKOIL pursuant to the LUKOIL Framework Agreement and agreements that we enter into from time to time with LUKOIL group companies. For the year ended December 31, 2006 and six months ended June 30, 2007, the revenues attributable to the onshore

drilling services performed under the LUKOIL Framework Agreement and such other contracts with LUKOIL group companies amounted to approximately 88.0% and 81.8%, respectively, of our total revenues for such periods. Pursuant to the LUKOIL Framework Agreement, BKE enters into annual contracts with companies of the LUKOIL group which contain detailed information on the numbers and locations of the wells to be drilled during the relevant year, as well as the basis on which our services are provided such as "turn-key," price estimates, price per meter drilled and general contractor. The price estimate basis is typically used for exploration drilling, and the price per meter drilled basis is typically used for production drilling agreements. For further information on the LUKOIL Framework Agreement, see "Material Contracts".

With respect to our other customers and the companies of the LUKOIL group with which we enter into contracts outside of the scope of the LUKOIL Framework Agreement, we generally contract to provide our onshore drilling services on one of the following bases: (i) agreed upon procedures and prices ("index contracts"), (ii) a general contractor and (iii), to a limited extent, dayrate basis. Under the terms of the index contracts, we generally agree upon a well development plan which sets forth our obligations in connection with the drilling operations and our fees associated with the achievement of certain specified milestones in the drilling process. As index contracts are typically used for exploration drilling, which involves greater risks and uncertainties, such contracts typically provide for a possibility of adjustment of our fees if delays in drilling operations occur or unanticipated geological conditions are encountered in the process of drilling. Under our general contractor agreements, we assume overall control of the drilling and associated services such as cementing and wireline logging and we subcontract directly with providers of such services. Our subcontractors are typically subject to approval by our customers. Dayrate contracts typically provide for payment of a fixed daily rate for our services on the basis of a twenty-four hour drilling cycle. Almost all of the contracts described above are for a period of one year. For certain risks associated with our contracts, see "Risk Factors — Risks Related to Our Business — We may incur losses on our general contractor and turnkey contracts and such contracts could cause our revenues and earnings to fluctuate significantly".

Approximately 70% of our non-LUKOIL business is obtained through open tenders, with the remaining 30% made through direct sales, the latter being the result of both our marketing efforts and clients' requests for our services. Most tenders are conducted annually through a process that begins with requests for proposals in September and ends with signed contractual commitments generally between December and March.

Customers and Marketing

Business development for our onshore drilling services division is conducted by a group of managers consisting of senior executives of BKE and each of its branches. Upon the initial acquisition of our onshore drilling business from LUKOIL, we opportunistically sought contracts with other Russian and international oil and gas companies operating in Russia. However, our ability to do so has been restricted by our limited capacity remaining after we fulfill our commitments under the LUKOIL Framework Agreement. We have a strategic focus on expanding our business to non-LUKOIL customers.

During the year ended December 31, 2006, based on our available rig capacity, we chose to participate in 23 tenders. As a result of the tenders, we won 23 contracts for the provision of production and exploration drilling services, sidetracking and workover services. In a significant development, reflecting our strategy to diversify our customer portfolio, in December 2006, we entered into a one-year contract with Rosneft for the provision of production drilling services to one of its Western Siberian subsidiaries.

In the six months ended June 30, 2007, LUKOIL was our largest customer accounting for 81.8% of our revenues in the onshore drilling division.

As part of our business development strategy, we continue to pursue opportunities to enter into long-term contracts with our clients for the term of two to three years.

Suppliers

Most of the drilling rigs that we use in providing our onshore drilling services were manufactured in Russia by either OOO "Volgogradsky Zavod Burovoy Techniki", an independent Russian manufacturer of drilling rigs, or ZAO "Uralmash Burovoye Oborudovanie", a Russian drilling rig manufacturer that is a subsidiary of Integra Group, one of our competitors. Recently, in line with our strategy to modernize our drilling fleet, we have purchased a number of drilling rigs from Western manufacturers, such as Bentec GmbH Drilling & Oilfield Systems, LeTourneau Ellis Williams Company, Inc., and ZAO "Izhdrill Hun-Hua".

We also rely on a number of Russian and international manufacturers to supply us with various drilling tools and equipment. We procure from third parties materials such as drill pipe, casing, tubing, cleaning tanks, racks and hoists and associated support equipment such as trailers, compressors, generators and boilers.

In the ordinary course of our business, especially in connection with our general contractor and turn-key agreements, we contract with a number of Russian and international companies for the provision of various oilfield and auxiliary services and materials such as drilling pad construction, logging, cementing, perforation and transportation services and tubing. LUKOIL, acting through one of its trading subsidiaries, is our largest supplier. Our purchases from LUKOIL, primarily consisting of tubing equipment, amounted to approximately US$111.0 million and US$52.6 million in 2006 and for the six months ended June 30, 2007, respectively.

Operations, Customers and Competition by Region

The majority of our onshore drilling and workover operations are conducted in the Western Siberia, Timan-Pechora and Volga-Urals regions of the Russian Federation, in remote locations and often in harsh climatic conditions. Because drilling and workover rigs are generally difficult to transport in Russia, they ordinarily operate only within the regions in which they are located. Our onshore drilling and workover operations can be negatively affected by winter thawing since large volumes of drilling equipment and drilling rigs situated in certain regions can only be transported during winter when the ground is sufficiently frozen to create access roads. During the months when there is limited or no access to certain regions, transport of equipment may only be undertaken by helicopter which is expensive and impractical for particularly heavy pieces of equipment. Failure to demobilize and transport a rig prior to the spring thaw may result in the rig being forced to remain in place on the oilfield until the following winter. We believe we have addressed these limitations by managing the supply of goods to our drilling and workover operations in these remote regions in an effort to ensure uninterrupted service.

Below we present by each major Russian oil and gas region in which we operate, the number of wells drilled and the number of meters drilled by our onshore drilling services division for the six months ended June 30, 2007 and 2006 and for the years ended December 31, 2006 and 2005.

	Number of Meters Drilled			
	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
Region				
Western Siberia	1,323,090	1,030,223	2,112,088	1,426,253
Volga-Urals	107,032	98,546	206,633	184,631
Timan-Pechora	103,208	73,403	176,684	88,265
Total	**1,533,330**	**1,202,172**	**2,495,405**	**1,699,149**

	Number of Wells Drilled			
	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
Region				
Western Siberia	451	359	722	530
Volga-Urals	45	36	78	84
Timan-Pechora	27	18	56	33
Total	**523**	**413**	**856**	**647**

	Number of Workovers Performed			
	Six months ended June 30,		Year ended December 31,	
	2007	2006	2006	2005
Region				
Western Siberia	0	0	12	343
Volga-Urals	1,039	1,390	2,658	3,188
Timan-Pechora	20	20	37	0
Total	**1,059**	**1,410**	**2,707**	**3,531**

Western Siberia

We provide onshore drilling services in Western Siberia through the Western Siberia branch of BKE ("WSB"). WSB maintains operating bases in Kogalym, Uray and Pokachi. As of June 30, 2007, WSB operated 88 drilling rigs and had 57 drilling crews with a total of 6,212 employees in Western Siberia.

WSB operates a broad spectrum of drilling rigs from 125 tonne rigs to 320 tonne rigs capable of drilling wells in excess of 5,000 meters. We rely primarily on BU-2500 EUK-1M rigs that are capable of drilling wells of up to 3,500 meters, which we consider to be the most suitable drilling rigs for cluster drilling in Western Siberia.

In 2006, our primary customers in Western Siberia in terms of revenues were LUKOIL and Gazpromneft.

We primarily compete in most areas of Western Siberia with SSK and SGK, which generally employ the same technologies as we do and also perform drilling services, primarily on a turnkey basis. See "Industry".

Volga-Urals

We provide drilling and workover services in the Volga-Urals region through the Perm and Nizhnevolshsk branches of BKE. The Perm branch is currently our only operating unit providing sidetracking services in the regions of Russia where we operate. We maintain operating bases in Perm, Polazna, Volgograd and Zhyrnovsk. As of June 30, 2007, we operated 56 drilling rigs and had 26 drilling crews with a total of 5,107 employees in the Volga-Urals region.

We operate a broad spectrum of drilling rigs from 75 tonne rigs used for side-tracking to 320 tonne rigs capable of drilling wells up to 5,000 meters. We rely primarily on BU-2500 EUK 1-M rigs that are capable of drilling wells of up to 3,200 meters and which we consider to be the most suitable drilling rigs for cluster drilling in the Volga-Urals region.

In 2006, our primary customer in the Volga-Urals region in term of sales was LUKOIL.

We primarily compete in the Volga-Urals region with the Siberian Service Company. See "Industry".

Timan-Pechora

We provide drilling workover services in the Timan-Pechora region through the Usinsk and the Naryanmar branches of BKE. We maintain offices and operating bases in Usinsk and Naryanmar. As of June 30, 2007, we operated 40 drilling rigs and had 23 drilling crews with a total of 3,831 employees in the Timan-Pechora region.

We primarily operate drilling rigs with lifting capacities of 320 tonnes.

Approximately one-half of our drilling services work in the Timan-Pechora region is performed in extremely undeveloped areas with poor transportation networks and, as a result, most deliveries of equipment and supplies occur during the winter months when drilling sites can be accessed by winter roads.

In 2006, our primary drilling services customers in Timan-Pechora in terms of sales were LUKOIL and Naryanmarneftegas, a joint venture between LUKOIL and ConocoPhillips.

We believe Integra and Usinskgeoneft are our primary competitors in the Timan-Pechora region.

Kazakhstan

In January 2007, we won a tender for drilling services with TOO "Kazakhoil-Aktobe". We intend to commence drilling operations in the Alibekmola region of Kazakhstan in the fourth quarter of 2007. Pursuant to the contract, we expect to drill nine wells through the end of 2008.

Uzbekistan

Although we established a subsidiary in Uzbekistan in August 2006, we currently do not perform any services there.

Offshore Drilling Services

Overview and History

Our offshore drilling services division provides drilling of oil and gas wells in the Caspian Sea. These services are carried out by AstraOrient Limited, EDC SHELF LTD. and OOO "BKE Shelf".

We acquired our offshore drilling division in December 2006 by acquiring LUKOIL Overseas Orient Limited, subsequently renamed to AstraOrient Limited, and LUKOIL Shelf Limited, subsequently renamed to EDC SHELF LTD., from LUKOIL.

Services Provided

Our offshore drilling services division provides exploration and production drilling services in the Caspian Sea.

Equipment and Technologies

We currently own and operate one jack-up rig in the Caspian Sea, the "Astra". Jack-up rigs are mobile self-elevating drilling platforms equipped with legs that can be lowered to the sea floor until a foundation is established to support the drilling platform. Once a foundation is established, the drilling platform is then jacked further up the legs so that the platform is above the highest expected waves.

Astra was built in 1983 by Nippon Kokan in Japan and underwent a major upgrade at the "Krasniye Brigadi" shipbuilding plant in Astrakhan, Russia, in 1999. Astra is a 3-pole jack-up platform designed for offshore exploration in the Caspian Sea with a mount height of 66 meters, which can be used to drill underwater with water depth of up to 45 meters and well depth of up to 5,000 meters. According to its specifications, Astra's three-angle pontoon has breadth of 53 meters, height of 54 meters, depth of 5.5 meters, gross tonnage of 3,722 tonnes and net tonnage of 1,117 tonnes. Astra is capable of accommodating 74 people. The estimated remaining useful life of Astra is 22 years. Astra's port of registry is Astrakhan, Russia, and it is authorized to sail under the state flag of the Russian Federation.

Astra is equipped with the VARCO TDS-11 top drive drilling system, Cameron and Shaffer blowout preventers and MD-Totco drilling monitoring system. In accordance with relevant Russian environmental regulations, Astra is outfitted with fish protection equipment, which enables us to perform drilling services in environmentally sensitive areas of the Caspian Sea.

EDC SHELF LTD., operator of Astra, has a document of compliance dated December 19, 2002, issued under the provisions of the International Convention for the Safety of Life at Sea, 1974, certifying that the safety management system of the company has been audited and complies with the requirements of the International Management Code for the Safe Operation of Ships and for Pollution Prevention for the Mobile Offshore Drilling Unit. EDC SHELF LTD. is also certified as being ISO 9001 : 2000 compliant. In 2006, Shell Exploration and Production commissioned a review of Astra by ModuSpec Engineering, a leading international provider of rig inspection services, which found our safety systems and equipment to be in compliance with Shell's offshore rig standards.

Capital Investment Program

In the first quarter of 2008, we expect to spend approximately US$10.0 million for the ordinary repair and maintenance of Astra. We expect to spend similar amounts for such repair and maintenance of Astra every five years thereafter.

Contracting

Our contracts to provide offshore drilling services are individually negotiated and vary with respect to terms and provisions. We contract directly with LUKOIL and obtain the majority of our other contracts through competitive tenders. Our drilling contracts generally provide for payment on a dayrate basis, with higher rates while the drilling unit is operating and lower rates for periods of mobilization or when drilling operations are interrupted or restricted by equipment breakdowns, adverse environmental conditions or other circumstances beyond our control.

A dayrate drilling contract generally extends over a period of time covering either the drilling of a single well or group of wells or covering a stated term. These contracts typically can be terminated by the client under various circumstances such as the loss or destruction of the drilling unit or the suspension of drilling operations for a specified period of time as a result of a breakdown of major equipment. Many of these events are beyond our control. The contract term in some instances may be extended by the client exercising options for the drilling of additional wells or for an additional term. Our contracts also typically include a provision that allows the client to extend the contract to finish drilling a well-in-progress. In reaction to depressed market conditions, our clients may seek renegotiation of firm drilling contracts to reduce their obligations or may seek to suspend or terminate their contracts. Some drilling contracts permit the customer to terminate the contract at the customer's option without paying a termination fee. Suspension of drilling contracts results in the reduction in or loss of dayrate for the period of the suspension. If our customers cancel some of our significant contracts and we are unable to secure new contracts on substantially similar terms, or if contracts are suspended for an extended period of time, it could adversely affect our results of operations.

Customers and Marketing

Prior to being acquired by us, our offshore drilling services division had constituted the offshore drilling division of LUKOIL. As such, it had satisfied all of LUKOIL's requirements for offshore drilling services in the Caspian Sea. Due to the icy conditions in the Russian sector of the Caspian Sea during the winter months and our resultant inability to utilize Astra there, we sought out contracts for drilling services in the Turkmen sector of the Caspian Sea. In Kazakhstan, we initially performed services for Tyubkaragan, a joint venture between LUKOIL and KazMunaiyGaz, a subsidiary of KazMunaiyGas — Kurmangazy Petroleum. This work was obtained through competitive tenders for offshore drilling services. In 2007 our main customers are Dragon Oil in Turkmenistan, LUKOIL in Russia and Shell in Kazakhstan.

Suppliers

In the ordinary course of business, we contract for the provision of various oilfield services, equipment and spare parts relating to our offshore drilling operations by, among others, PetroAlliance, ABB, Varco Drilling Systems, Cameron, National Oilwell, Caterpillar, Smith Services, Baker Oil Tools and Weatherford. Marine transportation services are provided by "LUKOIL-Kaliningradmorneft" and "Caspnefteflot". These companies transport equipment, spare parts and fuel to Astra and waste products from Astra. Air transportation services are provided by "LUKOIL-Avia" and "SCAT" Airlines. We ensure compliance with our "zero discharge" policy by contracting "Ecoshelf Caspiy" for the collection and onshore disposal of various kinds of waste generated by our offshore drilling operations. Ecoshelf Caspiy also provides oil spill monitoring and remedy services, which, among other things, includes a special purpose spill control vessel. Maintenance and repairs of Astra are performed by Derrick Services Limited (Norfolk).

Competition

The competition in the jack-up market of the Caspian Sea is relatively limited. We believe that there are currently two jack-up rigs operating in this sector with which we compete. These jack-ups are Trident-20 "Gurdulush," which was built in 2000 and is owned and operated by Transocean, and "Iran Khazar," which was built in 1995 and is owned and operated by the National Iranian Drilling Company. Both of these jack-ups can operate in water depths of up to approximately 120 meters and are capable of drilling offshore wells of up to 6,500 meters, which technical characteristics are comparable to those of Astra. The markets in the Caspian Sea in which we do not compete are the transition zone and the deep water markets that are dominated by the international majors such as Transocean. Our customers typically select offshore drilling contractors through open tenders. We typically compete on the basis of price and availability. On several occasions, despite the limited competition, we participated in tenders, but were not awarded contracts for drilling services. Based on the contracts signed as of the date of this Prospectus, Astra currently performs services for Shell and is expected to commence drilling for LUKOIL Nizhnevolzhskneft in the fourth quarter of 2007.

Insurance

Onshore Services

With respect to our onshore drilling services division, we maintain the following types of insurance mandated by applicable Russian law: obligatory medical insurance for employees, obligatory third party motor liability insurance, obligatory third party liability insurance for enterprises-that are sources of increased danger and obligatory third party liability insurance for enterprises operating hazardous production units. We also

maintain the following voluntary policies: medical insurance, life and accident insurance, motor insurance, property insurance and supplementary non-state pension fund employee insurance. Our policies are underwritten by major Russian and international insurance brokers, such as Capital-Strakhovaniye, Ingosstrakh LMT and AIG Russia. On June 1, 2007 we entered into a contract for a comprehensive insurance program with Capital-Strakhovaniye. Pursuant to that agreement, we insured wells, including wells which are being drilled, completed wells, prospective, exploration, injection, observation and monitor wells, plugged and suspended wells; drilling rigs and equipment, general property, risk of civil liability for pollution of the environment as a result of well control loss and cargo transportation. The total compensation limit under that policy is RUR1.95 billion. The insurance under that policy does not cover terrorism, strikes, confiscation or seizure of property, nationalization or other actions of civil authorities, military actions, civil disorders or the influence of radiation of any type.

Offshore Services

AstraOrient Limited as owner, OOO LUKOIL-Nizhnevolzhskneft as bareboat charterer and EDC SHELF LTD. as contractor are insured by Norcross Insurance Company Limited for the loss of Astra under a hull/machinery policy entered into on February 21, 2007 for a period of one year. The policy has a limit of US$40 million for hull/machinery, including leased, over-side and down-hole equipment, and US$50 million per any one occurrence, and a separate limit of US$2.5 million in respect of care, custody and control, as well as a protection and indemnity policy, which has a limit of US$100 million per any one accident or occurrence. These insurance policies are subject to exclusions that are customary for policies of their type. We believe such policies provide appropriate insurance coverage of Astra and our offshore drilling operations. Our current operations in the Kazakh sector of the Caspian Sea are further insured under a policy issued by AO "Strahovaya Kompaniya "Kazkomertz-Polis".

Health, Safety and Environment

Substantially all of our operations are subject to hazards that are customary for oil and gas drilling operations, including blowouts, reservoir damage, loss of well control, cratering, oil and gas well fires and explosions, natural disasters, pollution and mechanical failure. Our offshore operations also are subject to hazards inherent in marine operations, such as capsizing, grounding, collision and damage from severe weather conditions. See "Risk Factors — Risks Related to Our Business — We are subject to hazards customary for drilling operations, which could adversely affect our financial performance if we are not adequately indemnified or insured".

We consider the health and safety of our employees to be our most significant responsibility in connection with our operations. We strive to create a healthy and safe working environment at each of our drilling sites, support bases and other facilities through the implementation of certain safety measures. We follow Russian and relevant international industry safety standards applicable to each of our operations. For instance, all of our drilling rigs are certified by the Russian authorities for compliance with work safety requirements under Russian law.

In September 2005, BKE, our main onshore drilling services operating company, was certified by Bureau Veritas Group, an independent, internationally recognized certification firm, as being compliant with the requirements of the OHSAS 18001:1999 "Occupational Health & Safety Management Systems" and ISO 14001:2004 "Environmental Management Systems" standards. In April 2006, Bureau Veritas Group conducted a follow-up audit of our operations and found us to be in compliance with the requirements of such standards. Finally, in March 2007, our Usinsk and Moscow offices were audited by Bureau Veritas Group and were likewise found to be in compliance with the applicable safety standards. The quality management system of OOO "BKE Shelf", our main offshore operating subsidiary, has been ISO 9001 : 2000 certified by IQNet and Certification Association "Russian Register" on June 5, 2007.

We believe we are in compliance in all material respects with all safety laws and regulations applicable to our business. For the years ended 2006 and 2005, the total number of employee fatalities was one and three, respectively. Additionally, the total number of severe injuries suffered by our employees for the years ended 2006 and 2005 were six and seven, respectively. During the six months ended June 30, 2007, we had three employee fatalities and no severe injuries. Although we believe our operations to have sufficient safety measures in place, including a system for identifying causes of accidents, the nature of our business is such that accidents may occur. Moreover, while we strive to reduce our fatality and injury rates by implementing high safety standards at the locations where we conduct our operations, there can be no assurance that accidents will not occur in the future.

We are committed to conducting our operations in a manner that is consistent with all applicable environmental laws and regulations. We have an industrial and environmental safety department at BKE

comprised of 121 employees which supervises an environmental control system aimed at maintaining the safety of our operations and reducing the negative effect our operations may have on the environment. Our offshore drilling division has a safety department comprised of three employees who are charged with similar responsibilities. The principal source of pollutants we emit are drilling fluids and discharges that occur in the course of drilling operations. We currently are not subject to any material environmental claims, lawsuits, penalties or other actions. See "Risk Factors — Risks Related to Our Business — Compliance with health, environmental and safety laws and regulations could increase our costs or restrict our operations".

Property

We own approximately 286 facilities and lease seven further facilities, including mechanical repair shops for drilling equipment, administrative buildings, warehouses and chemicals storage facilities. We lease approximately 52 land plots on which our facilities are located.

Employees

As of June 30, 2007, we had 15,967 employees, including approximately 12,015 workers and 3,952 engineers, management and other staff in our onshore division and 198 employees in our offshore division. The majority of our employees are located in Russia. We have not experienced any work stoppages, strikes or similar actions in the past and consider relations with our employees to be good.

Approximately 88.5% of employees in our onshore drilling services division are members of the Oil & Gas Industry Workers Trade Union. We have no trade union in our offshore division.

We believe the training of our personnel at all levels is a key strength of our operations. For newly hired employees with no relevant work experience, we provide classroom training at our own training center in Zhirnovsk, Volga-Urals region, and Iskateley, Nenetskiy Autonomous District, as well as on-site training. We also re-train employees who desire to specialize in other aspects of our operations and provide advanced training to employees aimed at improving professional expertise, skills and abilities in an employee's existing occupation. In addition to the classroom and on-site training we provide for our employees, we also support our employees with supplemental training outside of our facilities. In our offshore division, our rig employees attend mandatory annual well-control training at the Gazprom training center in Dosang, Astrakhan Oblast.

For further information regarding our management, please see the section in this Prospectus entitled "Management".

Litigation

We have not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) during the 12 months preceding the date of this Prospectus which may have, or have had a significant effect on our financial position or profitability.

REGULATORY MATTERS

There is no specific regulatory regime relating to the provision of oilfield services industries under Russian law. However, certain federal laws and regulations contain general requirements applicable to these industries, key aspects of which are summarized below.

Licensing

The provision of oilfield services in the Russian Federation is subject to the receipt by us of numerous licenses from a number of Russian authorities. The key licensing requirements are summarized below.

The Federal Law "On Licensing of Certain Types of Activities", dated August 8, 2001 (the "Licensing Law") establishes a list of activities that can only be performed on the basis of licenses issued by the relevant Russian authorities. The activities relating to oilfield services that are subject to mandatory licensing requirements now include the use of explosives (the "Explosives License") and collection and transportation of hazardous waste (the "Hazardous Waste License").

Explosives Licenses

The procedure for issuing of the Explosives License is set forth in the Licensing Law, the Federal Law "On Industrial Safety of Hazardous Industrial Facilities", dated July 21, 1997 (the "Safety Law") and underlying regulations.

Explosives Licenses are issued by Rostekhnadzor. Licenses are generally granted for a term up to five years and may be extended upon application by the licensee. Rostekhnadzor maintains a register of such licenses. The licenses are granted on a non-competitive basis and are issued upon the relevant filing by an applicant, provided that (i) correct and complete documents have been filed and (ii) the applicant or facilities owned or used by it comply with applicable licensing terms, including, for example, reporting requirements, staff qualification and training requirements, proper maintenance of facilities, requirements for preventing accidents and remedying the consequences thereof.

Rostekhnadzor carries out regular monitoring to ensure the licensees' compliance with licensing terms and applicable laws and regulations. The frequency announced of inspections is established by Rostekhnadzor based on an analysis of industrial safety conditions relevant to the licensee's activity. Unannounced inspections may also be carried out.

Hazardous Waste Licenses

Hazardous Waste Licenses are issued by Rostekhnadzor pursuant to the Regulations of the Russian Government "On Approval of Regulations on Licensing of Hazardous Waste Collection, Use, Decontamination, Transportation and Disposal Activities", dated August 26, 2006. The procedures for the issuance of, monitoring compliance with the terms of, and revocation, of Hazardous Waste Licenses is similar to those applicable to the Explosives Licenses.

Standardization

Production processes are generally regulated by the Federal Law "On Technical Regulation", dated December 27, 2002. This law contains provisions on technical regulations, standardization, certification, accreditation of certification agencies and test laboratories, state control over compliance with the requirements of technical regulations, penalties for violations of technical regulations, product withdrawals and other related issues.

Environmental

We are subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law "On Environmental Protection", dated January 10, 2002, (the "Environmental Protection Law") as well as by number of other federal and local legal acts.

Pay-to-Pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. State authorities have established standards relating to the permissible impact of pollution on the environment and, in particular, have established limits for emissions waste disposal and resource extraction. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of the potential environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in a governmental decree, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Ecological Approval

Any activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law on Ecological Expert Examination. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described set forth in "— Environmental Liability" below.

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Agency of Subsoil Use, the Federal Agency of Forestry and the Federal Agency of Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and the Ministry of Natural Resources are responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organizations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental Liability

If the operations of a company violate environmental requirements or cause harm to the environment, a court action may be brought to limit or ban those operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Health and Safety

Due to the nature of our business, most of our activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating the safety of employees at industrial workplaces and to which the Company is subject is the Safety Law. The Safety Law also contains regulations relating to the use and storage of dangerous substances and which apply to our facilities and sites. Our oilfield services are also subject to Rules of Safety in the Oil and Gas Industry, dated June 5, 2003.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Rostekhnadzor.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labor Code of Russia (the "Labor Code"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional demolition companies or create their own demolition services in certain cases, conduct personnel training programs, create systems to respond to and inform Rostekhnadzor of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarize the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declarations must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a license permitting the operation of a dangerous industrial facility.

Rostekhnadzor has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of Rostekhnadzor conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of an investigation. The officials of Rostekhnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. Rostekhnadzor may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Employment and Labor

Labor matters in Russia are primarily governed by the Labor Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws, such as the Federal Law on Employment in the Russian Federation, dated April 19, 1991, and other acts adopted in accordance with these laws.

Employment Contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labor legislation expressly limits the possibility of entering into term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labor relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by federal law.

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labor Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with his or her duties due to incompetence or health problems;
- repeat failure of the employee to fulfill his or her duties;
- any single gross violation by the employee of his or her duties; and
- provision by the employee of false documents or misleading information prior to becoming employed.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labor Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 or other persons caring for a child under the age of 14 without a mother.

Any termination by an employer that is inconsistent with the Labor Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work Time and Salary

The Labor Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally four weeks. The retirement age in the Russian Federation is 60 for males and 55 for females.

The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is currently 2,300 rubles. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

The Labor Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labor dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination.

Trade Unions

Although recent Russian labor regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, our management routinely interacts with trade unions in order to ensure the appropriate treatment of our employees and the stability of our business.

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity, dated January 12, 1996 (the "Trade Union Law"). Other applicable legal acts include the Labor Code, which provide for more detailed regulations relating to activities of trade unions.

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labor laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labor issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labor disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;

- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labor inspectors and prosecutors to ensure that an employer does not violate Russian labor laws. Trade unions may also initiate collective labor disputes, which may lead to strikes.

To initiate a collective labor dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labor disputes are generally referred to mediation or labor arbitration.

The Trade Union Law provides that those who violate the rights and guarantees provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability. Although neither the Code of the Russian Federation on Administrative Misdemeanors nor the Criminal Code of the Russian Federation currently has provisions specifically relating to these violations, general provisions and sanctions may be applicable.

Antimonopoly Restrictions

Effective October 26, 2006, the main Russian law in the area of competition has been the Federal Law "On Protection of Competition" No. 135-FZ (the "New Antimonopoly Law"). Some or all of our future activities may be subject to compliance with the provisions of the New Antimonopoly Law, including the requirement that a prior approval be obtained from the Russian Federal Antimonopoly Service ("FAS"). Prior to October 26, 2006, the applicable law had been the Law of the RSFSR "On Competition and Restriction of Monopoly Activities on Commodity Markets" No. 948-1, dated March 22, 1991 (the "Prior Antimonopoly Law"). The key provisions of the New Antimonopoly Law and the Prior Antimonopoly Law are summarized below.

Prior Antimonopoly Law

Among other matters, under the Prior Antimonopoly Law, the FAS was authorized to approve acquisitions of more than 20.0% of the voting shares or participation interests in, acquisitions of more than 10.0% of the production assets of, and acquisitions of control over Russian entities.

If the combined assets of the target and the acquirer's group of entities and/or individuals exceeded RUR 3 billion or if the target, the acquirer or a company in the acquirer's group of entities and/or individuals was registered as having more than a 35.0% share of a particular commodity market, then prior consent of the FAS for the acquisition was required. As a condition to issuing such approvals, the FAS had the authority to impose certain conditions designed to promote competition, including restrictions on conducting business, such as price limitations, geographical expansion, associations and agreements with competitors.

The Prior Antimonopoly Law expressly provided for its extraterritorial application to transactions that were consummated outside of the Russian Federation but led, or could lead, to the restriction of competition in Russia, or could give rise to other negative consequences on the Russian markets. Russian antimonopoly authorities, therefore, tended to apply Russian merger control rules to offshore acquisitions if the non-Russian target company had a market presence in Russia.

As no court guidance as to the meaning of "acquisition of control" under the Prior Antimonopoly Law had been developed and due to the broad possible interpretation of the terms "group of entities and/or individuals" and "acquisition of control", application of the relevant antimonopoly laws and regulation largely depended on interpretation of such concepts and terms at any particular time by the FAS and/or the Russian courts.

Under the Prior Antimonopoly Law, failure to obtain consent from the FAS for an acquisition subject to such approval could result in:

- a Russian court invalidating the relevant acquisition, provided the FAS met the burden of proving that the transaction resulted in the restriction of competition;

- the imposition of an administrative fine of up to RUR 500,000;
- the issuing by FAS of certain orders in relation to the Russian subsidiaries of the parties to the acquisition (for example, orders imposing restrictions on their activities or establishing additional reporting requirements); and
- increased scrutiny of any further dealings with, or investigations by, FAS, including in relation to any future restructuring or acquisition involving the Russian subsidiaries of the parties to such transaction.

New Antimonopoly Law

Although certain elements of the Prior Antimonopoly Law have been retained by the New Antimonopoly Law, the latter represents an attempt by the Russian legislators to create a more market-friendly, antitrust regime, which would also be more in line with the methods and approaches to antitrust law developed in the United States and the European Union.

The New Antimonopoly Law requires that prior approval of the FAS be obtained for (i) acquisitions of more than 25.0%, 50.0% and 75.0% of the voting shares in a Russian joint stock company and more than 1/3, 1/2 and 2/3 of the interests in a Russian limited liability company, (ii) acquisitions of the production assets and/or intangible assets of a business entity if such assets represent more than 20.0% of the balance sheet value of the vendor's production assets and intangible assets, and (iii) acquisitions of control over business entities. Approval by the FAS would be required if, in relation to the acquisition discussed in the foregoing section (i) the combined assets of the target's and the acquirer's group of entities and/or individuals exceed RUR 3 billion, (ii) the combined revenues of the target's and the acquirer's group of entities and/or individuals from the sale of goods for the proceeding year exceed RUR 6 billion and the combined value of the assets of the target's group of entities exceed RUR 150 million, or (iii) the target, the acquirer or a company in the target's or acquirer's group of entities and/or individuals is registered as having more than a 35.0% share of a particular commodity market.

The acquisitions would require subsequent notification to the FAS if (i) the parties are entities of the same group, (ii) the list of the group's entities was provided to the FAS at least one month prior to the consummation of the transaction, and (iii) the list of the group's entities has not changed as at the date of the consummation of the transaction.

Acquisitions do not require any FAS filing if they are authorized by the President's or government's acts.

The New Antimonopoly Law retains the extraterritorial approach of Russian antitrust rules. However, as a general rule, for such rules to apply to an offshore transaction and such rules requires that the relevant transactions be related to either production assets and/or shares of a Russian entity and result or be capable of resulting in restriction of competition in the Russian Federation. Furthermore, the New Antimonopoly Law expressly allows the FAS to consider foreign goods and services in defining markets for the purposes of enforcement and other actions, thereby potentially easing restrictions on Russian providers of goods and services.

MANAGEMENT

Board of Directors

As of the date of this Prospectus, our Board of Directors comprises:

Name	Age	Position	Expiry of Term
Lord Gillford	46	Chairman of the Board of Directors	Indefinite
Alexander Yu. Djaparidze	52	Director	Indefinite
L.Todd Gremillion	60	Director	Indefinite
Martin E.Hansen	66	Director	Indefinite
René Huck	60	Director	Indefinite
Albert I. Vladimirov	68	Director	Indefinite
Alexander Shokhin	56	Director	Indefinite

The business address of each of the members of our Board of Directors is No. 53, Mykonos Court, Aristide Charalambous 2, 1077 Nicosia, Cyprus. Except as otherwise noted, each member of our Board of Directors was appointed to the Board on October 15, 2007.

Brief biographies of our Directors are set out below.

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

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

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

Martin E. Hansen. Mr. Hansen has served as our Chief Financial Officer since May 1, 2004 and a member of our Board of Directors since January 1, 2005. He plans to step down as Chief Financial Officer in mid-November 2007. He was formerly a member of the board of directors of BKE from 2005 to 2007. From 1999 to 2002, Mr. Hansen was Chief Financial Officer of PetroAlliance. Mr. Hansen holds a bachelor of business administration degree from the University of Iowa.

René Huck. Mr. Huck has been a member of the board of directors of PetroAlliance since May 2004. Mr. Huck is recently retired from Schlumberger where he has held a variety of senior positions over the last 15 years, most recently as Vice-President QHSE and Industry Affairs. Before joining Schlumberger, Mr. Huck was CEO of the drilling contractor Techfor — Cosifor. Prior to that, he worked for 16 years as an engineer and operations manager at TOTAL. Mr. Huck is a Mechanical Engineer from Ecole Centrale in Nantes, France and a Petroleum Engineer from the French Petroleum Institute in Paris, France.

Albert I. Vladimirov. Mr. Vladimirov has been a member of the board of directors of BKE since 2005, where he is also a member of BKE's Strategic Planning Committee. Mr. Vladimirov is a Professor and Rector of the Gubkin Russian State University of Oil and Gas since 1993. Mr. Vladimirov is a full member of the Russian

Engineering Academy since 1995 and a full member of the Russian Academy of Natural Sciences since 1996. Mr. Vladimirov holds a degree in Equipment for Chemical Industry from the Gubkin State University of Oil and Gas. Mr. Vladimirov is a Candidate of Technical Science.

Alexander Shokhin. Mr. Shokhin has been a member of the board of directors of LUKOIL and Chairman of its Personnel and Remuneration Committee since January 2005. Mr. Shokhin has been the President of the State University-Higher School of Economics since 1995. He also has been President of the Russian Union of Industrialists and Entrepreneurs since 2005. Mr. Shokhin was Chairman of the Supervisory Council of Renaissance Capital Investment Group from 2002 until 2005. From 1994 until 2002 he was a Deputy of the State Duma, where his last position was the Head of the Duma Committee on Credit Institutions and Capital Markets. Mr. Shokhin holds a degree in Economics from Moscow State University. Mr. Shokhin is a Doctor of Economic Science, Professor and Member of the Russian Academy of Natural Sciences.

Management

As of the date of this Prospectus, the members of our senior management team (the "Management") are as follows:

Name	Age	Position	Expiry of Term
Alexander Yu. Djaparidze	52	Chief Executive Officer	Indefinite
Martin E. Hansen(1)	66	Chief Financial Officer	Indefinite
Ronald A. Harris(1)	52	Senior Vice President — Finance and Investor Relations	Indefinite
Murray Vasilev	50	Senior Vice President — Business Development	Indefinite
S. Douglas Stinemetz	49	General Counsel and Secretary	Indefinite
Alexander N. Bogachev	48	President, BKE	Indefinite
Taleh M. Aleskerov	37	Senior Vice President — Finance, BKE	Indefinite
Medzhid M. Zulpukarov	52	General Director, BKE Shelf	Indefinite
Vadim Bayanov	51	Senior Vice-President Operations, BKE	Indefinite
Yuri Sitlivy	50	Senior Vice President Commercial Development and Operations Support, BKE	Indefinite
Nikolay Smirnov	42	Senior Vice President Corporate Development, BKE	Indefinite

(1) Mr. Hansen will be replaced by Mr. Harris as of mid-November 2007. Mr. Hansen will remain a member of our Board of Directors.

Brief biographies of our Management are set out below.

Alexander Yu. Djaparidze. Mr. Djaparidze has served as our Chief Executive Officer since August 2007. For additional information see "— Board of Directors" above.

Martin E. Hansen. Mr. Hansen has served as our Chief Financial Officer since May 1, 2004. For additional information see "— Board of Directors" above.

Ronald A.Harris. Mr. Harris has served as our Senior Vice President Finance and Investor Relations since September 2007. Mr. Harris served as Chief Financial Officer of International Energy Services, Inc. (IESI), a privately held American company with subsidiaries in Russia and Kazakhstan, from 2000 to 2007. IESI's primary operations were seismic data acquisition and processing. Mr. Harris holds a bachelor of accountancy degree from New Mexico State University.

Murray Vasilev. Mr. Vasilev has served as our Senior Vice President Business Development since June 2007. From 2000 to May 2007, he was Senior Vice President of the Well Services Division of PetroAlliance. Mr. Vasilev served as Vice President for Western Atlas and Baker Atlas from 1994 to 1999 where he managed operations in the former Soviet Union and the Middle East.

S. Douglas Stinemetz. Mr. Stinemetz has served as our outside counsel since 2003 and our General Counsel and Secretary since August 2007. He has been a member of the board of directors of BKE since August 2007. Since September 2007, he has been a principal of The Stinemetz Law Firm. From 1997 to 2007, he was a member of Haynes and Boone, an international law firm where he specialized in matters involving the oil and gas industry in the CIS. Mr. Stinemetz holds bachelor and master of arts degrees from Harvard University, and received his law degree from New York University School of Law.

Alexander N. Bogachev. Mr. Bogachev has served as President of BKE since February 2007. From November 1981 to June 2002, Mr. Bogachev served in various positions in companies, which became a part of LUKOIL-Burenie. From June 2002 to August 2004, Mr. Bogachev served as Deputy Director Production of JV VIETSOVPETRO. From August 2004 to February 2007, Mr. Bogachev served as Deputy Head of Drilling Department, Head of Contract Work Department, Director of Western Siberia Branch, Vice President and Director of Western Siberia Branch of BKE. Mr. Bogachev holds a degree in Oil and Gas Wells Construction from Kuibyshev Polytechnical Institute.

Taleh M. Aleskerov. Mr. Aleskerov has served as Vice President-Finance of BKE since August 2005 and Senior Vice President Finance since 2006. From 2001 to 2005, he served as Vice President Finance at PetroAlliance and from 2000 to 2001, he served as Finance Manager of American Express. Mr. Aleskerov holds a degree in applied mathematics from the Azerbaijan State Oil Academy. Mr. Aleskerov has Qualification Certificates CPA, CIMA, DBA.

Medzhid M. Zulpukarov. From January 2001 until May 2007, Mr. Zulpukarov served as Director of the Astrakhan branch of LUKOIL Shelf Limited, and from May 1999 to January 2001 he served as Executive Director of LUKOIL Shelf Limited. Prior to joining LUKOIL Shelf Limited., Mr. Zulpukarov held various positions at PetroAlliance. Mr. Zulpukarov has served as the General Director of BKE Shelf since we acquired it in May 2007. Mr. Zulpukarov holds a degree in oil and gas wells construction from Gubkin Russian State University of Oil and Gas. Mr. Zulpukarov was awarded the Russian Federation Government prize for special achievement in science and technology.

Vadim Bayanov. Mr. Bayanov has served as Senior Vice-President-Operations of BKE since August 2007. Mr. Bayanov served as Director of the Usinsk branch of BKE since January 2006 and as Head of the Drilling Department in BKE, Deputy General Director on Technology and New Regions of OOO "BK "Eurasia-Perm" from 2002 to 2006. He served as Head of the Department on Workover Wells of "LUKOIL-Burenie-Perm" from 1999 to 2002. Mr. Bayanov holds a degree in Technology and Complex Mechanization of Oil and Gas Deposits Development from the Perm Polytechnic Institute.

Yuri Sitlivy. Mr. Sitlivy has served as Senior Vice President-Commercial Development and Operations Support of BKE since April 2005. Mr. Sitlivy served as a Director of the BKE Representative Office in Moscow since December 2004. Mr. Sitlivy occupied various senior executive positions at other oil and gas companies, including Bashmineralneft, Bashkamneft and Bargaz-RP. Mr. Sitlivy holds a degree in Oil and Gas Wells Drilling techniques and Processes from the Grozny Oil Institute. Mr. Sitlivy also holds a certificate in Drilling Technologies and Well Control from Murchison Drilling School.

Nikolay Smirnov. Mr. Smirnov has served as Senior Vice President-Corporate Development of BKE since September 2006. Mr. Smirnov served as Deputy Head of Economics and Finance Department, Oil and Gas Production Directorate of SIBUR Holding and Deputy Director of Investments and Development Department, Head of Investment Programs Department of AK SIBUR from October 2002 to March 2006. Mr. Smirnov served as Head of the PSA Department of Tyumenskaya Neftyanaya Kompaniya from November 1995 to September 2002.

Interests of Members of the Board of Directors and Management

Mr. Alexander Yu. Djaparidze, who currently controls 54.52% of our shares and is our Chief Executive Officer and the chairman of the board of directors of BKE, holds the position of Executive Chairman of the board of directors of PetroAlliance, a company with which we have engaged and expect to continue to engage in transactions, including those in the ordinary course of business. In particular, in the six months ended June 30, 2007, the Company has purchased well construction and related services from PetroAlliance in the amount of US$13.8 million.

In addition, Mr. Alexander Shokhin, a member of our Board of Directors, is a member of the board of directors of LUKOIL, a company which is a current customer of BKE, and which we anticipate to be a continuing customer of BKE in the future. Mr Shokhin is not a member of the board of directors or senior management of BKE, and therefore, has no direct managerial authority with respect to decisions at BKE. In the six months ended June 30, 2007 and the year ended December 31, 2006, BKE received revenues in the amount of US$550.8 million and US$956.8 million, respectively, from LUKOIL for drilling and related services.

Except as described in Messrs. Djaparidze's and Shokhin's biographies on pages 77 and 78 of this section "Management" and in "Related Party Transactions — PetroAlliance" and "— Shareholder Loans" on page 82 of this Prospectus, there are no potential conflicts of interest between any duties owed to the Company by our directors and senior managers and their private interests and/or other duties.

Certain of our directors and senior managers have beneficial ownership interests in our Ordinary Shares. See "Principal and Selling Shareholders".

Corporate Governance

Since we are incorporated in the Cayman Islands, we are not subject to UK corporate governance requirements. However, we intend to move to a position of compliance in all material respects with the UK Combined Code of Corporate Governance (the "Combined Code") over time following Admission.

Our Board of Directors is responsible for the management and oversight of the Company, and meets on a regular basis. In addition, five out of the seven members of our Board of Directors serve in a non-executive capacity. We consider three of these five non-executive directors (Lord Gillford, who also serves as our Chairman, Mr. Gremillion and Mr. Vladimirov) to be independent for purposes of the Combined Code. The remaining two non-executive directors (Mr. Huck and Mr. Shokhin) are not strictly independent for the purposes of the Combined Code, since they are also members of the boards of directors of vendors or customers of the Company. Nevertheless, the Company does not consider that this fact undermines the independence of these two non-executive directors. In fact, the Company considers that, as a result of their service on these other boards, these two non-executive directors bring particular expertise to the Company's Board of Directors, since they have a greater industry specific knowledge. The Company will continue to consider the composition of its Board of Directors from time to time. The Company may choose to deviate from the strict requirements of the Combined Code in relation to Board composition on a case-by-case basis if it is considered in the best interests of the Company or consistent with industry practice generally or required by applicable Cayman Islands law, provided that any such deviation is consistent with the Directors' general fiduciary duties and applicable policies of the Company.

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

Audit and Finance Committee

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

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

Remuneration and Compensation Committee

The Company's Remuneration and Compensation Committee consists of three members: Mr. Huck, Mr. Vladimirov and Mr. Djaparidze. The committee is chaired by Mr. Huck. The committee is responsible for establishing and implementing a policy for the compensation of directors, consultants and members of senior management, which may take the form of cash, stock options granted pursuant to stock option plans and other benefits.

Corporate Governance Committee

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

Remuneration of Members of the Board of Directors and Management

The Company intends to enter into service contracts with the members of the Board of Directors which will provide for remuneration of approximately US$112,500 for each director per annum, subject to attendance at meetings. The Company also intends to provide for directors' and officers' liability insurance for each of its directors with a minimum coverage limit of US$25 million.

For the year ended December 31, 2006 and the six months ended June 30, 2007, members of the senior management received aggregate remuneration of US$2 million and US$1 million, respectively, including salary and bonuses. Employment contracts with the Company's senior management do not provide for special benefits upon termination of employment. In addition, the Company does not provide pension, retirement or similar benefits to its senior management.

Incentive Compensation Plan

On July 31, 2007, the Board of Directors considered and approved the 2007 Incentive Compensation Plan (the "Plan"). The Plan was adopted by the Board of Directors to reward certain corporate officers, directors and key employees of the Company and certain independent consultants by enabling them to acquire ordinary shares of the Company and/or other awards as the Remuneration and Compensation Committee of the Board of Directors deems appropriate. The Plan is designed to attract and retain key employees of the Company and its subsidiaries, to attract and retain qualified directors of the Company, to attract and retain consultants and other independent contractors and to stimulate the active interest of such persons in the development and financial success of the Company and its subsidiaries. The Plan allows the Company to issue ordinary shares in the Company up to 5% of the total ordinary shares issued and outstanding on such terms and conditions as are, in the best judgment of the Board of Directors, necessary, appropriate, advisable or convenient in connection with the foregoing.

General

As at the date of this Prospectus, none of the members of the Board of Directors or Management has at any time within the last five years:

(i) had any convictions (whether spent or unspent) in relation to offences involving fraud or dishonesty;

(ii) been adjudged bankrupt or been the subject of any individual voluntary arrangement;

(iii) been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies);

(iv) been disqualified by a court from acting as a director or other officer of any company or from acting in the management or conduct of the affairs of any company;

(v) been a partner in a partnership which, while he was a partner or within 12 months of his ceasing to be a partner, was put into compulsory liquidation or administration or which entered into any partnership voluntary arrangement, or had a receiver appointed over any partnership asset;

(vi) had a receiver appointed with respect to any assets belonging to him; or

(vii) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or which entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors, at any time during which he was a director of that company or within 12 months after his ceasing to be a director.

RELATED PARTY TRANSACTIONS

The following is a summary of our most significant transactions with related parties for the years ended December 31, 2006 and 2005, the six months ended June 30, 2007 and the period to the date of this Prospectus. For further details of these transactions, see note 18 to our Audited Consolidated Financial Statements and note 14 to our Unaudited Interim Financial Statements.

PetroAlliance

During the year ended December 31, 2006, and the six month ended June 30, 2007, we purchased well construction and related services from PetroAlliance, of which Alexander Djaparidze was President until February 5, 2007, and where he currently serves as Executive Chairman of the board of directors, in the amount of approximately US$20.6 million and US$13.8 million, respectively.

Shareholder Loans

In the period from November 2006 through March 2007, we entered into loan agreements with our shareholders Cloudburst Orange Limited, Burned Sun Limited, Blue Sunset Limited and Alexander Djaparidze to partially fund the investment program of our onshore drilling services division and the purchase of our offshore drilling services business. The aggregate principal amount of such loans was US$70.0 million. The loans mature on December 31, 2011 and incur interest at the rate of 8.6% per annum. As at June 30, 2007, the aggregate outstanding amount of such loans was US$70.0 million. Interest expense of US$2.8 million was recognized and paid on these loans during the six months ended June 30, 2007.

Acquisition of OOO BKE Shelf

Pursuant to a participating interest sale and purchase agreement, dated May 18, 2007, between AstraOrient Limited and Medjid Zulpukarov, we acquired a 100% interest in OOO "BKE Shelf" for a purchase price of RUR 10,000. Mr. Zulpukarov had held the interest as a nominee for the Company.

Capital Lease Obligations

During 2006, we received property, plant and equipment under a capital lease from an associated company and a company in which a substantial stockholder has a controlling interest, OAO LK Leasing, with a carrying amount of US$17.9 million. During the six months ended June 30, 2007, we acquired US$15.9 million of additional drilling equipment from this entity. Included in the property, plant and equipment as of June 30, 2007, is US$3.8 million of advances to this entity for the purchase of drilling equipment.

Transportation and Well Services

During 2005, we received transportation and well services of US$108.0 million from entities controlled by a former stockholder and member of management. In addition, we sold US$18.0 million of inventories to such entities.

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us within the two years immediately preceding the date of this Prospectus and are, or may be, material or have been entered into at any time by us and contain provisions under which we have an obligation or entitlement which is, or may be, material to us as at the date of this Prospectus.

Agreements for the Offering

Underwriting Agreement

The Underwriting Agreement, dated ● 2007, among us, the Selling Shareholders and the Managers, providing for, among other things, the underwriting of the Offering, as described in " Subscription and Sale".

Deposit Agreement

The Deposit Agreement, to be dated on or about ● 2007, between us and the Depositary, as described in "Terms and Conditions of the Global Depositary Receipts".

Agreements in Connection with the Issue of our Securities

Shareholders' Agreement

The Shareholders' Agreement, effective December 16, 2004, was entered into by and among the Company, Alexander Yu. Djaparidze, Burned Sun Limited, Cloud Burst Orange Limited, Blue Sunset Limited, Samara Drilling Management Limited, Gold Rust LLP, Martin E. Hansen, Thomas Larry Smith, Pierpoint Jupiter Limited, Jay Lendrum. Eagle Eye Holdings, Inc. and Willian Flores (such entities and individuals together, the "Shareholders") in order to impose certain restrictions on the dispositions by the Shareholders of their respective interests in the Company and agree on the voting procedures for the Company's Board of Directors and shareholders' meetings. It is expected that the Shareholders' Agreement will be terminated prior to the closing of the Offering.

Acquisition Agreements

Acquisition of BKE

Pursuant to a sale and purchase agreement (the "SPA") between LUKOIL and the Company, dated November 16, 2004, we acquired 100% of the participatory interest in OOO LUKOIL-Bureniye (subsequently renamed OOO "Burovaya Kompaniya "Eurasia"") for a total consideration of US$68.5 million, of which US$34.2 million was paid at closing and the balance of US$34.3 million is to be paid in three annual installments of US$11.5 million, US$11.5 million and US$11.3 million, (each, an "Annual Installments") beginning in December 2007 plus the annual payment of accrued and unpaid interest at the rate of 6.0% per annum on the outstanding principal balance beginning on December 31, 2005. All of our payment obligations under the SPA are secured by a pledge of 50.0%, 33.33% and 16.7% of our participatory interest in BKE until the date of payment of the first, second and third Annual Installment respectively, plus relevant interest payable on each such date.

Pursuant to the SPA, we undertook to (i) purchase new drilling equipment for an amount not less than US$50 million nor exceeding US$100 million, (ii) upgrade our existing drilling equipment for an amount not less than US$20 million nor exceeding US$50 million, and (iii) train personnel for an amount not less than US$5 million nor exceeding US$10 million, in each case during the five year period commencing December 31, 2004.

On December 2, 2005, we transferred 100% of our participatory interests in BKE to our wholly-owned subsidiary Cypress Oilfield Holdings Limited, and on December 15, 2005 that subsidiary assumed our obligations under the SPA. We remain jointly and severally liable under the SPA.

Acquisition of AstraOrient Limited and LUKOIL Shelf Limited

Pursuant to a share purchase agreement dated November 21, 2006 between the Company, BKE Oilfield Service Holdings Limited and LUKOIL Drilling Limited we acquired 100% of the outstanding common shares of LUKOIL Overseas Orient Limited (subsequently renamed "AstraOrient Limited") and LUKOIL Shelf Limited (subsequently renamed "EDC SHELF LTD") from the LUKOIL Group for US$ 40.3 million paid in cash.

EDC SHELF LTD. operates Astra, which is owned by AstraOrient Limited. The companies provide offshore well drilling services in the Caspian Sea to various oil and gas companies in the Russian Federation, Kazakhstan and Turkmenistan.

Acquisition of 25.2% of the share capital of OAO LK Leasing

Pursuant to a share purchase agreement dated June 24, 2005 between BKE and LUKOIL, BKE acquired 25.2% of the share capital of OAO LK Leasing (29.47% of voting shares) for a purchase price of RUR 24,036,673.

Sale of Assets

Pursuant to an agreement on the transfer of assets, dated October 1, 2005, between BKE and CJSC BERSUS, CHURS LLC, SUMR LLC, KEDR LLC and PROMETEY LLC (together, the "purchasers"), the purchasers acquired from BKE certain of BKE's assets for the total consideration of RUR 469,499,957. Pursuant to the agreement, such consideration is payable during a five-year period commencing on October 1, 2007 in equal monthly installments. The outstanding amount of indebtedness accrues interest at the rate of 6% per annum.

Financing Agreements

LUKOIL Loans

Prior to the acquisition of our onshore drilling services business, BKE had entered into the following loan agreements with LUKOIL which remain outstanding:

Date	Amount (in millions of RUR)	Maturity	Security	Outstanding as of June 30, 2007 (in millions of RUR)
April 17, 2003	71.8	March 31, 2018	Unsecured	71.8
November 14, 2003	128	December 31, 2018	Unsecured	87.8
April 29, 2004	117	December 31, 2018	Unsecured	70.8
May 26, 2004	278.9	March 31, 2012	Drilling equipment	135.2
May 26, 2004	1,063.3	June 30, 2014	Drilling equipment	488.0
May 21, 2004	585.8	June 30, 2010	Drilling equipment	244.6

All loans accrue interest at the rate of 6.0% per annum.

Sberbank Loans

On October 25, 2005, BKE entered into a loan agreement with the Joint-Stock Commercial Savings Bank of the Russian Federation ("Sberbank"). The nominal aggregate amount of the loan is RUR 715 million, it matures on October 22, 2010, and accrues interest at the rate of 11.3% per annum. The loan is secured by (i) a pledge of fixed assets with a value of not less than RUR 466,131,863, (ii) a pledge of goods with a value of not less than RUR 514,610,136.38 and (iii) insurance of the pledged property.

On August 15, 2006, BKE entered into a loan agreement with Sberbank. The nominal aggregate amount of the loan is RUR 500 million, it matures on August 15, 2007, and accrues interest at the rate of 7.4% per annum.

On March 9, 2006, BKE entered into a loan agreement with Zapadno-Uralsky Bank of Sberbank. The nominal aggregate amount of the loan is RUR 690 million, it matures on March 7, 2011, and accrues interest at a variable rate ranging from 9.0% to 11.0% depending on the duration of the loan. The loan is secured by (i) a pledge of fixed assets and goods with a value of not less than RUR 500 million, and (ii) a pledge of fixed assets and goods with a value of not less than RUR 445.3 million.

On April 20, 2007 BKE entered into a loan agreement with Zapadno-Uralsky Bank of Sberbank. The nominal aggregate amount of the loan is RUR 500 million, it matures on April 18, 2008, and accrues interest at the rate of 7.4% per annum.

On September 12, 2007, BKE entered into a non-revolving line of credit agreement with Sberbank. The amount of the credit line is RUR 900 million. The loan matures on September 12, 2008, and accrues interest on any amounts borrowed thereunder at the rate of 8% per annum. The loan is secured by certain assets of BKE valued at approximately RUR 1.23 billion.

International Moscow Bank Loans

BKE has entered into the following loan agreements with the International Moscow Bank:

Date	Initial principal amounts	Interest rate per annum	Maturity	Outstanding as of June 30, 2007 (thousands of US$)
February 06, 2006	EUR 4.2 million	EURIBOR+2.55%	February 5, 2008	5,648
July 25, 2006	RUR 300 million	7.1%	July 25, 2007	5,152
August 22, 2006[1]	EUR 12 million	EURIBOR+2.50%	August 22, 2007	16,136
October 30, 2006	RUR 830 million	8.75%	December 31, 2009	32,150
January 29, 2007	RUR 930 million	8.95%	January 29, 2012	36,024

(1) This loan was repaid in full on August 13, 2007.

Other Agreements

LUKOIL Framework Agreement

In furtherance of the SPA, we entered into the Framework Well Construction Agreement, dated November 16, 2004 (the "LUKOIL Framework Agreement"), pursuant to which LUKOIL agreed to contract with BKE for the drilling of at least 6,500,000 meters, including 5,840,000 meters of production drilling and 660,000 meters of exploration drilling, over the five year period commencing January 1, 2005 and ending December 31, 2009. LUKOIL and the Company agreed to provide for specific conditions of the drilling services in annual well construction contracts to be executed by relevant subsidiaries of LUKOIL and BKE on or prior to November 1 of each year. The estimated fees due to the Company for the developmental drilling services set out in the LUKOIL Framework Agreement were RUR 73.1 billion (approximately US$2.6 billion), which were based on the current prices for drilling services on which the Company planned to provide its services to LUKOIL in 2005. Such prices are subject to adjustment in accordance with a formula set forth in the LUKOIL Framework Agreement.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information regarding the ownership of our shares as of the date hereof and as adjusted to reflect the Offering and the exercise of the Over-Allotment Option in full. None of the shareholders detailed below have voting rights which differ in any form from those of our other shareholders.

	Beneficial Ownership Prior to the Offering		Shares to be Sold in the Offering	Beneficial Ownership After the Offering Assuming no Exercise of the Over- Allotment Option		Beneficial Ownership After the Offering Assuming the Over-Allotment Option is Exercised in Full	
Shareholder Name and Principal Address	**Number**	**Percent**	**Number**	**Number**	**Percent**	**Number**	**Percent**
Alexander Yu. Djaparidze[1] . . . . . 14-20 First Spasonalivkovsky Pereulok Moscow, Russia	31,252,500	25.00					
Cloudburst Orange Limited[2] . . . . . c/o Karen Michel Stenham Trustees Limited Suite 2 North, Town Mills Rue du Pre St. Peter Port, GY1 1LT Guernsey, Channels Islands	35,320,000	28.26					
Burned Sun Limited[3] . . . . . c/o Zoran Ratkovic Limassol City House 6 Karaiskakis Street 3rd Floor Limassol CY-3032, Cyprus	35,320,000	28.26					
Blue Sunset Limited[4] . . . . . c/o The Stinemetz Law Firm One Briar Lake Plaza, Suite 150 2000 West Sam Houston Parkway Houston, Texas 77042	13,897,500	11.12					
Goldrust LLP[5] . . . . . c/o L. Todd Gremillion 4515 Magnolia Bellaire, Texas 77401, USA	1,390,000	1.11					
Martin E. Hansen[6] . . . . . 12025 Naughton Street Houston, Texas 77024 USA	1,042,500	0.83					
Margin Finance Company Limited[7] . . Trident Chambers PO Box 146 Road Town Tortola, British Virgin Islands	4,070,000	3.26					
Pierpont Jupiter Limited . . . . . 121 North Post Oak Lane Unit 904 Houston, Texas 77024, USA	1,040,000	0.83					
John James Lendrum . . . . . c/o Torch Energy Advisors Inc. 1221 Lamar Street Suite 1175 Houston, Texas 77010, USA	347,500	0.28					
Eagle Eye Holdings, Inc[8] . . . . . c/o The Stinemetz Law Firm One Briar Lake Plaza, Suite 150 2000 West Sam Houston Parkway Houston, Texas 77042	695,000	0.56					
William Flores . . . . . Phoenix Exploration Company 1200 Smith Street, Suite 1700 Houston, Texas 77002, USA	625,000	0.50					
Total:	125,000,000	100.00%					

(1) Mr. Alexander Yu. Djaparidize is our Chief Executive Officer as well as a member of our Board of Directors. As a result of his direct ownership, as well as his ownership of Cloudburst Orange Limited and Margin Finance Company Limited, Mr. Djaparidize is the beneficial owner of 54.52% of our shares.
(2) Mr. Alexander Yu. Djaparidize is a beneficial owner of Cloudburst Orange Limited.
(3) Mr. Alexander Putilov is a beneficial owner of 28.26% of our shares through his ownership of Burned Sun Limited.
(4) Mr. Serik Rakhmetov is a beneficial owner of 11.12% of our shares through his ownership of Blue Sunset Limited.
(5) Mr. L. Todd Gremillion, a member of our Board of Directors, is a beneficial owner of 1.11% of our shares through his ownership of Goldtrust LLP.
(6) Mr. Martin E. Hansen is our Chief Financial Officer as well as a member of our Board of Directors.
(7) A family trust of Mr. Alexander Yu. Djaparidze is a beneficial owner of 1.26% of our shares through its ownership of Margin Finance Company Limited.
(8) Mr. S. Douglas Stinemetz, our General Counsel and Secretary, is a beneficial owner of 0.56% of our shares through his ownership of Eagle Eye Holdings, Inc.

DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE

Set out below is a summary of material information concerning our share capital, including a description of certain rights of the holders thereof, and related material provisions of our Articles of Association. This information is not exhaustive and reference should be made to our Articles of Association and to the laws of the Cayman Islands.

The holders of GDRs will be able to exercise their rights with respect to the ordinary shares underlying the GDRs only in accordance with the provisions of the Deposit Agreement and the relevant requirements of applicable law. See "Terms and Conditions of the Global Depositary Receipts" for more information.

Objects

The objects for which we were established are unrestricted and we have the full power and authority to carry out any object not prohibited by the Companies Law. Our objects are set out in Section 3 of the Memorandum of Association.

Share Capital

Our authorized share capital is US$2.5 million, consisting of 250,000,000 ordinary shares, with a par value of US$0.01 per share. Immediately prior to the Offering, our issued share capital consisted of 125,000,000 issued and outstanding ordinary shares with a par value of US$0.01 per share, all of which are fully paid. As of the date hereof, there are no other authorized or issued classes of shares in issue.

Ordinary Shares

General

We are a Cayman Islands company and our affairs are governed by our Memorandum of Association and Articles of Association, the Companies Law and the common law of the Cayman Islands. The following are summaries of material provisions of our Memorandum of Association and Articles of Association and the Companies Law insofar as they relate to the material terms of our ordinary shares.

All the outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares, if issued, are issued in registered form. The ordinary shares are issued when registered in the register of the Company.

There are no options, acquisition rights and/or obligations over authorized but unissued capital and we have not given any undertakings to further increase the capital.

Voting Rights

Each ordinary share is entitled to one vote on all matters upon which the ordinary shares are entitled to vote, including the election of directors.

Meetings of Shareholders

We shall, if required by the Companies Law, other applicable law or the relevant code, rules or regulations applicable to the exchange on which shares are listed, hold a general meeting of shareholders at such time and place as the Board of Directors may appoint.

The required quorum for a meeting of our shareholders generally consists of a number of shareholders present in person or by proxy and entitled to vote that represents the holders of at least a majority of our issued voting share capital. Shareholders' meetings may only be convened by our Board of Directors. At least seven days advanced notice is required to convene a shareholders' meeting, with such notice specifying the place, day and hour of such meeting. The affirmative vote of shareholders holding at least a majority of the ordinary shares, present in person or by proxy, at a general meeting is required in order to adopt any shareholders' resolution.

Dividends

The holders of our ordinary shares are entitled to receive such dividends as may be declared by our Board of Directors. Dividends may be paid out of profits or out of the share premium reserve, in accordance with the Companies Law.

Liquidation

If we are to be liquidated, the liquidator may, with the approval of the shareholders, divide among the shareholders in cash or in kind the whole or any part of our assets, and may determine (subject to any liquidation preferences attaching to the classes of shares) how such division shall be carried out as between the shareholders or different classes of shareholders, and may vest the whole or any part of such assets in trustees upon such trusts for the benefit of the shareholders as the liquidator, with the approval of the shareholders, sees fit, provided that a shareholder shall not be compelled to accept any shares or other assets which would subject the shareholder to liability.

Reduction of our Share Capital

At a general meeting of the shareholders, our shareholders may, by special resolution, resolve to reduce our share capital and any capital redemption reserve in any manner authorized by the laws of the Cayman Islands.

Transfer

Any transfer of our ordinary shares shall be in the manner specified in the Articles of Association or such other form as the Board of Directors may, in its sole and absolute discretion, approve and be executed by or on behalf of the transferor and, if so required by the Board of Directors, shall also be executed on behalf of the transferee. Legal title will not pass until the transferee is entered into our register.

The Board of Directors may decline to register any transfer of ordinary shares to a person of whom they do not approve, and may also decline to register any transfer of ordinary shares on which we have a lien. The Board of Directors may also suspend the registration of any transfers of ordinary shares during the 14 days immediately preceding a general meeting of shareholders. Moreover, the Board of Directors may decline to recognize any transfer, and such transfer will not be effective, unless the instrument of transfer is accompanied by a certificate representing the ordinary shares (if any such certificate was issued), and such other evidence as the Board of Directors may reasonably require in order to show the right of the transferor to undertake such transfer.

Alteration of share capital

We may from time to time by ordinary resolution increase the authorized share capital by such sum, to be divided into shares of such classes and amount, as the resolution may provide. The new ordinary shares shall be subject to the same provisions of the Articles of Association with reference to the payment of call, lien, transfer, transmission, forfeiture or otherwise as the ordinary shares in the same class in the original share capital. We may also, by ordinary resolution, (i) consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares, (ii) subdivide our existing shares, or any of them, into shares of a smaller amount than is fixed in the Memorandum of Association, and (iii) cancel any shares that, at the date of passing of the resolution, have not been taken or agreed to be taken by any person.

Amendment to the Articles of Association

We may from time to time alter or add provisions to the Articles of Association by passing a special resolution in accordance with the Companies Law.

Board of Directors

Our Board of Directors manages us and consists of seven members, with the Articles of Association fixing a maximum number of members of seven unless otherwise fixed by us. The policy governing both our day-to-day and our general affairs will be determined by our Board of Directors or any such committee so authorized by the Board of Directors. Our shareholders may at any time by a majority of votes to appoint any person to be a director or remove any director by ordinary resolution. Our directors have the power at any time to appoint any person to be a director, either to fill a casual vacancy or as an addition to the existing directors, provided that the appointment of such a director shall be approved or terminated by a resolution of the shareholders at the next general meeting.

The quorum necessary for the transaction of business of the directors may be fixed by the Board of Directors and, unless so fixed, shall be one. Decisions shall be made by a majority vote of the directors present at a meeting at which there is a quorum.

A director who is in any way, whether directly or indirectly interested in a contract or proposed contract with us shall declare the nature of his interest at a meeting of the Board of Directors. Provided that he had disclosed the nature of any such interest, a director may vote in respect of any contract or proposed contract or arrangement notwithstanding that he may be interested therein and if he does do his vote shall be counted and he may be counted in the quorum at any meeting of the Board of Directors where any such contract, proposed contract or arrangement is considered.

Remuneration of Directors

The remuneration of the directors shall be determined by the Board of Directors on the advice of the Remuneration and Compensation Committee.

Directors Powers

Subject to the Companies Law and our Articles of Association, our business shall be managed by the Board of Directors in such manner as they see fit. The Board of Directors may delegate any of the powers vested in it to any committee consisting of such director or directors as it thinks fit.

Anti-takeover Provisions

We are not subject to any anti-takeover provisions under the laws of the Cayman Islands. However the Articles of Association permit our Board of Directors to issue preferred shares from time to time, with such rights and preferences as they consider appropriate. Our Board of Directors could authorize the issuance of preferred shares with terms and conditions and under circumstances that could have an effect of discouraging a takeover or other transaction.

Miscellaneous

Our ordinary shares are held in registered, certificated form and are issued under and governed by the laws of the Cayman Islands.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt Certificate.

The Global Depositary Receipts ("**GDRs**") represented by this certificate are issued in respect of ordinary shares of nominal value US$0.01 each (the "**Shares**") in Eurasia Drilling Company Limited, a Cayman Islands exempted company (the "**Company**"), with one GDR issued in respect of one Share, pursuant to and subject to an agreement dated ● 2007, and made between the Company and JPMorgan Chase Bank, N.A. as depositary (the "**Depositary**") for the "Regulation S Facility" and the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "**Deposit Agreement**"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed The Bank of Nova Scotia Trust Company (Bahamas) Limited as Custodian (as defined below) to receive and hold on its behalf, as nominee, the Shares and any certificates issued in respect of such Shares (the "**Deposited Shares**") and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "**Deposited Property**"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to the number of Shares in respect of which the GDRs held by such Holder are issued. In these terms and conditions (the "**Conditions**"), references to the "**Depositary**" are to JPMorgan Chase Bank, N.A. and/or any other Depositary which may from time to time be appointed under the Deposit Agreement, references to the "**Custodian**" are to The Bank of Nova Scotia Trust Company (Bahamas Limited) or any other Custodian from time to time appointed under the Deposit Agreement and references to the "**Office**" mean, in relation to the Custodian, its office at Scotia House, 404 East Bay Street, PO Box N3016, Nassau, Bahamas (or such other office as from time to time may be designated by the Custodian with the approval of the Depositary).

References in these Conditions to the "**Holder**" of any GDR shall mean the person registered as Holder on the books of the Depositary maintained for such purpose (the "**Register**"). These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Office of the Custodian. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement, and shall become bound by these Conditions and the Deposit Agreement upon becoming a Holder of GDRs. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, the Company or the Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and as if it were the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate.

1. Deposit of Shares and Other Securities

(A) After the initial deposit of Shares in connection with the Initial Offering, unless otherwise agreed by the Depositary and the Company and permitted by applicable law, only the following may be deposited under the Deposit Agreement in respect of such GDR:

(i) Shares issued as a dividend or free distribution on Deposited Shares pursuant to Condition 5;

(ii) Shares subscribed or acquired by Holders from the Company through the exercise of rights distributed by the Company to such persons in respect of Deposited Shares pursuant to Condition 7;

(iii) securities issued by the Company to the Holders in respect of Deposited Shares as a result of any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or otherwise pursuant to Condition 10. References in these Conditions to "Deposited Shares" or "Shares" shall include any such securities, where the context permits; and

(iv) (to the extent permitted by applicable law and regulation) any other Shares in issue from time to time.

For so long as the Shares are held in dematerialised form, "Shares" to be delivered or deposited with the Custodian shall mean the delivery or deposit of a certified extract of the Share Register maintained by the Cayman Islands Share Registrar.

(B) The Depositary will issue GDRs in respect of Shares accepted for deposit under this Condition. Under the Deposit Agreement, the Company must inform the Depositary if any Shares issued by it which may be deposited under this Condition do not, by reason of the date of issue or otherwise, rank *pari passu* in all respects with the other Deposited Shares. Subject to the provisions of Conditions 5, 7 and 10, if the Depositary accepts such Shares for deposit it will arrange for the issue of temporary GDRs in respect of such Shares which will form a different class of GDRs from the other GDRs until such time as the Shares which they represent become fully fungible with the other Deposited Shares.

(C) The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Company that the Company has restricted the transfer of such Shares to comply with ownership restrictions under applicable Cayman Islands law or that such deposit would result in any violation of any applicable Cayman Islands laws or governmental or stock exchange regulations. The Depositary may also refuse to accept Shares for deposit in certain other circumstances as set out in the Deposit Agreement.

In its capacity as Depositary, the Depositary shall not lend Shares or other Deposited Property held hereunder or GDRs, *provided that*, the Depositary reserves the right subject to applicable law and without prejudice to its obligations under the Deposit Agreement, to (i) execute and deliver GDRs or issue interests in a Master GDR prior to the receipt of Shares by the Custodian or the Depositary, as the case may be, and (ii) deliver Deposited Property prior to the receipt and cancellation of GDRs in accordance with the Conditions, including GDRs which were issued under (i) above but for which Shares may not have been received (in each case a "**Pre-Release**"). The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release shall be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs or Deposited Property are to be delivered (the "**Pre-Releasee**") that at the time of such transaction, such person, or its customer (i) beneficially owns the corresponding Shares or GDRs, as the case may be, to be delivered to the Depositary, (ii) assigns all beneficial right, title and interest in and to such Shares or GDRs, as the case may be, to the Depositary in its capacity as such for the benefit of the Holders and will hold such Shares or GDRs, as the case may be, in trust for the Depositary until those Shares or GDRs are delivered to the Depositary or Custodian, (iii) will reflect the Depositary as the owner of such Shares or GDRs, as the case may be, on its records, (iv) will deliver such Shares or GDRs, as the case may be, to the Depositary or Custodian upon the Depositary's request and (v) will not take any action with respect to such Shares or GDRs, as the case may be, that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Shares or GDRs, as the case may be), other than to deliver such Shares or GDRs, as the case may be, to the Depositary in its capacity as such, (b) at all times fully collateralised marked to market daily with cash, U.S. government securities, or other collateral held by the Depositary for the benefit of the Holders as the Depositary reasonably determines will provide substantially similar security and liquidity, (c) terminable by the Depositary on not more than five business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The Depositary may also set limits with respect to the number of Shares and GDRs involved in Pre-Releases to be effected hereunder with any one person on a case-by-case basis as it deems appropriate. The collateral referred to in Condition 1(B) above shall be held by the Depositary for the benefit of the Holders as security for the performance of the obligations of the Pre-Releasees to deliver the relevant Shares or GDRs, as the case may be, set forth in Condition 1(B) above (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

Nothing in this Condition 1(C) shall obligate the Company to issue any new Shares in respect of any Pre-Release by the Depositary. The person to whom any Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1(C) shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A to the Deposit Agreement and the person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this Condition 1(C) shall be requested to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 to the Deposit Agreement.

(D) The Depositary may retain for its own account any compensation received by it in connection with the foregoing, including without limitation earnings on any collateral. Save as set out in the Deposit Agreement where, in particular, the Company specifically confirms its agreement that the Depositary will be entitled to make a Pre-Release pursuant to Condition 1(C), the Company will have no liability whatsoever to the Depositary or any Holder or to any person to whom the GDR or Deposited Property may be delivered by the Depositary or any other holder in due course of such GDRs or Deposited Property with respect to any representations, actions or omissions by the Depositary or any Holder pursuant to Condition 1(C).

2. Withdrawal of Deposited Property

(A) Subject as set out in this Condition 2, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Office of the Custodian, or (at the request, risk and expense of the Holder and only if permitted by applicable law from time to time) at the specified office from time to time of the Depositary or any Agent to, or to the order in writing of, the person or persons designated in such order and a duly executed and completed certificate substantially in the form set out in Schedule 4 Part B to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement; and

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable.

(B) Certificates (if applicable) and the Company's Share Register with respect to withdrawn Deposited Shares will contain such legends, including the legends described under "Selling and Transfer Restrictions — Transfer Restrictions", and withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.

(C) Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition, the Depositary will direct the Custodian by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate (if applicable) for, or other appropriate instrument of title to, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid;

provided that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates (if applicable) for, or other instruments of title to, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraph (i) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its Agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied by such instruments of transfer in blank or to the person or persons specified in such order and such other documents, if any, as are required by law for the transfer thereto),

in each case to the specified office from time to time of the Depositary or, if any, any Agent as designated by the surrendering Holder in such accompanying order as aforesaid.

(D) Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

(E) Subject as set out above, upon request by any Holder in accordance with this Condition 2 for withdrawal of Deposited Property and upon compliance therewith including provision to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4 Part B to the Deposit Agreement by or on behalf of each person who will be the beneficial owner of the Deposited Property to be delivered in

respect of Rule 144A GDRs, Part B of Schedule 4 to the Deposit Agreement may be modified in a manner not inconsistent with the provisions of the Deposit Agreement as may be reasonably required by the Depositary in order for the Depositary to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs issued hereunder may be listed or to conform with any usage with respect thereto or any book-entry system by which GDRs issued hereunder may be transferred, or to indicate any special limitations or restrictions to which any particular GDRs are subject by reason of the date of issuance of the underlying Deposited Property or otherwise) the Depositary shall make (and forthwith notify the Custodian and the Company of) such arrangements for delivery or collection thereof as soon as practicable to, or to the order in writing of, the person or persons specified in the order for withdrawal, provided that the Depositary shall not (except on the instruction of the Company) make arrangements for such delivery or collection (i) during any period when the transfer of Shares has been blocked on the account due to participation in any shareholders' meeting of the Company when notified by the Company in writing that such suspension is necessary, or (ii) the Depositary is notified by the Company in writing that delivery of Deposited Property will not comply generally, or in one or more localities, with any applicable law or governmental or stock exchange regulations, or (iii) the Depositary is notified by the Company in writing that delivery of Deposited Property will result in ownership of such Shares exceeding any limit under applicable Cayman Islands law or government resolution or the constitutive documents, or for any other reason as agreed with the Depositary, as notified to the Depositary by the Company from time to time. For the avoidance of doubt, in the absence of any such notification from the Company, the Depositary is not under any obligation to ascertain or determine whether or not any such delivery should be refused (including monitoring ownership levels amongst beneficial owners) and the Depositary shall not be liable for any loss, damage or other consequences arising from any such delivery. Also, for the avoidance of doubt, provided that it is complying with a written notification from the Company pursuant to this Condition 2(E), the Depositary shall not be liable for any loss, damage or other consequences arising from its refusal or delivery. The Depositary shall only be obliged to deliver Shares or other Deposited Property to the extent that Shares or such other Deposited Property are then held by the Custodian or the Depositary or by their respective agents pursuant to the provisions of the Deposit Agreement.

Neither the Depositary nor the Custodian shall deliver Shares, by physical delivery, book entry or otherwise (other than to the Company or its agent as contemplated by Condition 1), or otherwise permit Shares to be withdrawn from the Regulation S Facility or from the Rule 144A Facility, except upon the receipt and cancellation of Regulation S GDRs or Rule 144A GDRs, respectively or as set out in Condition 1(C) above. Notwithstanding the foregoing, each Holder and owner of Rule 144A GDRs acknowledges that at any time (a) the Company maintains an unrestricted depositary receipt facility with respect to the Shares in the United States (including, without limitation, the Regulation S Facility) and (b) any of the Rule 144A Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and each of the Depositary and the Custodian agrees that, neither the Custodian nor the Depositary will make any actual delivery of Regulation S Shares to any Holder or beneficial owner at an address within the United States.

(F) The Depositary may refuse to deliver Deposited Property generally, or in one or more localities, if such refusal is deemed necessary or desirable by the Depositary, in good faith, at any time or from time to time because of any requirement of law or of any government or governmental authority, body or commission, or under any provision of the Deposit Agreement or for any other reason, and will ensure that the Deposited Property comprises at least one Share until such time as all the GDRs are cancelled.

3. Transfer and Ownership

The GDRs are in registered form, with one GDR issued in respect of one Share. Title to the GDRs passes by registration in the Register and, accordingly, transfer of title to a GDR is effective only upon such registration in the records of the Depositary. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

So long as Rule 144A GDRs are "restricted securities" within the meaning of Rule 144 under the Securities Act, interests in such Rule 144A GDRs corresponding to the Rule 144A Master GDR may be transferred to a person whose interest in such Rule 144A GDRs is to be represented by the Regulation S Master GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. Issuance of Rule 144A GDRs, including in connection with the transfer of an interest in Regulation S GDRs to a person whose interest is to be represented by the Rule 144A Master GDR, shall be subject to the terms and conditions of the Deposit Agreement, including delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property in a currency other than United States dollars, the Depositary, its Agent or Custodian shall as soon as practicable convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11, *provided that*:

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16(A)(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations) and distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions Other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any

requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall (in the case of a sale) distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders in accordance with Condition 23 of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specify details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(i) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and, to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or

(iii) if and in so far as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to applicable laws and regulations) and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto except to the extent prohibited by applicable law.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in (i), (ii) or (iii) above the Depositary shall permit the rights to lapse. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders or owners of GDRs in general or to any Holder or owner of GDRs in particular.

The Company has agreed in the Deposit Agreement that it will, unless prohibited by any applicable law or regulation, give its consent to, and, if requested, use its reasonable endeavours (subject to the next paragraph) to facilitate any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 5, 6, 7 or 10.

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 5, 6, 7 or 10 or the securities to which such rights relate, in order for the Depositary to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities represented by such rights, the Depositary will not offer such rights or distribute such securities or other property to Holders or sell such rights unless and until the Company procures at the Company's expense, the receipt by the Depositary of an

opinion from counsel satisfactory to the Depositary that the necessary registration has been effected or that the offer and sale of such rights, securities or property to Holders or beneficial owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither the Depositary nor the Company shall be liable for any losses, damages or expenses resulting from any failure to do so.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or financial institution, by sale or in any other manner that it may determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary, with the assistance of the Company, shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may consider desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency (without liability to any person for interest thereon) for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may in its absolute discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance on non-interest bearing accounts for the account of, the Holders entitled thereto and notify the Holders accordingly.

9. Distribution of any Payments

(A) Any distribution of cash under Conditions 5, 6, 7 or 10 will be made by the Depositary to those Holders who are Holders of record on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record date set by the Company or as near as practicable to any record date set by the Company) for that purpose and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream Banking, societe anonyme ("**Clearstream, Luxembourg**"), Euroclear Bank S.A./N.V. ("**Euroclear**") or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relevant Deposited Property.

(B) Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the entitled Holder on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record dates set by the Company or as near as practicable thereto), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit and the Depositary shall have no obligation therefore or liability with respect thereto after such payment to the Company.

10. Capital Reorganisation

Upon any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital or upon any takeover reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders in accordance with Condition 23 and, at its discretion, may treat such event as a distribution and comply with the relevant provisions of Conditions 5, 6 and 9 with respect thereto or may execute and deliver additional GDRs in respect of Shares or may call for the surrender of outstanding GDRs to be exchanged for new GDRs which reflect the effect of such change or to be stamped in the appropriate manner so as to indicate the new number of Shares and/or the new securities evidenced by such outstanding GDRs or may adopt more than one of these courses of action.

11. Taxation and Applicable Laws

(A) Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Shares will be subject to deduction of Cayman Islands and other withholding taxes, if any, at the applicable rates.

(B) If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in the Cayman Islands in order for the Depositary to receive from the Company Shares or other rights, securities, property and cash to be deposited under the Conditions or in order for Shares, other securities or other property and cash to be distributed or otherwise dealt with under Conditions 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company, to the extent permitted by applicable law, shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreement, to the extent reasonably practicable and that it does not involve unreasonable expense on behalf of the Company, to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs, Shares, other securities or other property or cash to be deposited under the Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which it has been informed in writing that such authorisation, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duty to obtain (but shall, where assistance is reasonably requested by the Company and such assistance does not require the Depositary to take any action in conflict with market practice or any applicable laws or in a capacity other than its capacity as Depositary, at the expense of the Company, make reasonable endeavours to assist the Company to obtain) any such authorisation, consent or permit or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary without, in the opinion of the Depositary, unreasonable burden or expense.

12. Voting Rights

(A) As soon as practicable after receipt from the Company of notice of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property, the Depositary shall fix the record date (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) in respect of such meeting or solicitation of consent or proxy. The Depositary shall, if requested by the Company in writing in a timely manner (the Depositary having no obligation to take any further action if the request shall not have been timely received by the Depositary prior to the date of such vote or meeting) and at the Company's expense and provided no U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Cayman Islands legal prohibitions, exist, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York City on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the constitutive documents and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Upon the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions in the manner specified by the Depositary, the Depositary shall endeavour, insofar as practicable and permitted under applicable law, the

provisions of the Deposit Agreement, the constitutive documents and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.

(B) Neither the Depositary nor the Custodian shall, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian shall vote or attempt to exercise the right to vote the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with instructions from Holders. Notwithstanding the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions, if such voting instructions fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder to have instructed the Depositary not to vote the Deposited Property with respect to the items for which the Holder has failed to specify the manner in which the Depositary is to vote. Deposited Property represented by GDRs for which no specific voting instructions are received by the Depositary from the Holder shall not be voted. The Company agrees to provide timely notice to the Depositary which will enable the timely notification of Holders as to any change in its constitutive documents resulting in limitations on the ability of the Depositary to vote a particular GDR according to the voting instructions received in regard to such GDR.

(C) Notwithstanding anything else contained in the Deposit Agreement, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange). The Company agrees that it shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of Clause 7 of the Deposit Agreement.

13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may, for the account of the Holder, discharge the same out of the proceeds of sale on any stock exchange on which the shares may from time to time be listed and subject to Cayman Islands law and regulations, of an appropriate number of Deposited Shares (being an integral multiple of the number of Shares in respect of which a single GDR is issued) or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 23.

14. Liability

(A) In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or the owners of GDRs except that any funds received by the Depositary for the payment of any amount due, in accordance with these Conditions, on the GDRs shall be held by it in trust for the relevant Holder until duly paid thereto.

(B) None of the Depositary, the Custodian, the Company, nor any of their agents, officers, directors or employees nor any Agent shall incur any liability to any other of them or to any Holder or owner of a GDR if, by reason of any provision of any present or future law or regulation of the Cayman Islands or any other country or of any relevant governmental authority or by reason of the interpretation or application of any such present or future law or regulation or any change therein or by reason of any other circumstances beyond their control or, in the case of the Depositary, the Custodian, any of their agents, officers, directors or employees or any Agent, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor (save in the case of wilful default, negligence or bad faith) shall any of them incur any liability to any Holder, owner of a GDR or person with an interest in any GDR by reason of any non-performance or delay in performance of any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed, or by reason of any exercise of, or failure to

exercise, caused as aforesaid, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

(C) None of the Depositary, the Custodian nor any Agent shall be liable (except by reason of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.

(D) The Depositary and each of its Agents and their respective affiliates, may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commission and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or beneficial owners of GDRs, or any other person for any profit arising therefrom.

(E) The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders in general or to any Holder in particular pursuant to Condition 7.

(F) The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

(G) The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to the Company, any Holder or owner of GDRs as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

(H) In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or beneficial owners of GDRs or any other person.

(I) Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.

(J) The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof.

(K) The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by any member of the Board of Directors of the Company or by a person duly authorised by the Board of Directors of the Company or such other certificate from persons specified in Condition 14(J) which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence of or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

(L) Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees.

(M) No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.

(N) The Depositary may, in the performance of its obligations hereunder instead of acting personally, employ and pay an agent, whether a lawyer or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. The Depositary will not be liable to anyone for any misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent.

(O) The Depositary shall not be liable to any person if incorrect, false or misleading information derives from an inspection of the Share Register.

(P) The Depositary may, having given prior notification to the Company, delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interest of the Holders think fit provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate, arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Clause, which includes the power to sub-delegate, shall provide that the delegate or sub-delegate, as the case may be, shall be required to provide the services delegated or sub-delegated in substantially the same manner as such services are required to be provided under this Deposit Agreement and the delegate or the sub-delegate, as the case may be, shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice to the Company and the Depositary.

The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute and the Depositary shall not (in the case of deposit with itself, in the absence of negligence, bad faith or wilful default) be responsible for any losses, liabilities or expenses incurred in connection with any such deposit.

(Q) The Depositary shall not under any circumstances have any liability arising from the Conditions or from any obligations which relate to the Conditions, whether, in any such case, as a matter of contract, tort, negligence or otherwise, for any indirect, special, punitive or consequential loss or damage, loss of profit, reputation or goodwill, or trading loss incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.

(R) Nothing in the Conditions shall exclude any liability for loss or damage caused by fraud on the part of the Depositary, or for death or personal injury arising from any failure on the part of the Depositary to take reasonable care or exercise reasonable skill.

(S) For the purposes of Condition 14(Q):

(i) "consequential loss or damage" means loss or damage of a kind or extent which was not reasonably foreseeable at the time the Deposit Agreement was entered into as a serious possibility in the event of the breach of obligation in question; and

(ii) "special loss or damage" means loss or damage of a kind or extent which arises from circumstances special to the person suffering the loss and not from the ordinary course of things, whether or not those circumstances were known to the Depositary either at the time the Deposit Agreement was entered into or later.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

(A) The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Initial Offering) or for the cancellation of GDRs upon the withdrawal of Deposited Property U.S.$0.05 or less per GDR issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares, for operation and maintenance costs associated with the administration of the GDRs and in connection with inspections of the Share Register maintained by the Cayman Islands Share Registrar, if applicable: a combined fee of U.S.$0.03 or less per GDR per annum;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): U.S.$0.05 or less per outstanding GDR for each such issue of rights, dividend or distribution; and

(vi) for the issue of GDRs pursuant to a change for any reason in the number of Shares represented by each GDR, regardless of whether or not there has been a deposit of Shares to the Custodian or the Depositary for such issuance: a fee of U.S.$0.05 or less per GDR (or portion thereof),

together with all expenses, transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian in connection with any of the above including, but not limited to charges imposed by a central depositary and such customary expenses as are incurred by the Depositary in the conversion of currencies other than United States dollars into United States dollars and fees imposed by any relevant regulatory authority.

(B) The Depositary is entitled to receive from the Company such fees, taxes, duties, charges, costs, expenses and other payments as agreed between them in the Deposit Agreement or as specified in a separate agreement between the Company and the Depositary concerning such fees, taxes, duties, charges, costs, expenses and other payments.

17. Agents

(A) The Depositary shall be entitled, with the approval of the Company, to appoint one or more agents (the "**Agents**") for the purpose, *inter alia*, of making distributions to the Holders.

(B) Notice of appointment or removal of any Agent providing services outside of the ordinary course of business or of any change in the specified office of the Depositary will be duly given by the Depositary to the Company.

18. Listing

The Company has undertaken in the Deposit Agreement to use all reasonable endeavours to obtain and thereafter maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the regulated market for listed securities of the London Stock Exchange. For that purpose the Company will pay all fees and sign and deliver all undertakings required by the UK Listing Authority and the London Stock Exchange in connection therewith. In the event that a listing on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange are not maintained, the Company has undertaken in the Deposit Agreement to use all reasonable endeavours to obtain and maintain a listing of the GDRs on any such other internationally recognized investment exchange in Europe as it may decide.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property other than cash for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement, which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian. The Custodian shall be responsible solely to the Depositary; provided that, if at any time the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 30 calendar days' notice in writing upon the removal of, or upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor custodian (approved by the Company, such approval not to be unreasonably withheld or delayed), which shall, upon acceptance of such appointment and the expiry of any applicable notice period, become the Custodian under the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Holders to do so, it may, after prior consultation with the Company, if practicable, terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved by the Company, such approval not to be unreasonably withheld or delayed), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as herein specified; provided that, in the case of such temporary deposit in another place, the Company shall have consented to such deposit and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if, and to the extent that, the obtaining of such insurance is reasonably practicable and the premiums payable are, in the opinion of the Depositary, of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

(A) Unless otherwise agreed to in writing between the Company and Depositary from time to time, the Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 calendar days' notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving 90 calendar days' notice in writing to the Company and the Custodian. In addition, the Depositary and the Company agree to consult and attempt to resolve in good faith any matters in relation to the services to be provided by the Depositary to the Company under the Deposit Agreement. Within 30 calendar days after the giving of such either notice, notice thereof shall be duly given by the Depositary to the Holders and to the UK Listing Authority and the London Stock Exchange. The Depositary may resign as Depositary and appoint one of its affiliates as its successor Depositary hereunder by giving written notice to the Company and notice to the Holders in accordance with Condition 23.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in the relevant notice provided that no such termination of appointment or resignation shall take effect other than in the case of an appointment by the Depositary of one of its affiliates as its successor depositary, until (a) the appointment by the Company of a successor depositary, (b) the grant of such approvals as may be necessary to comply with applicable laws and with the constitutive documents for the transfer of the Deposited Property to such successor depositary, and (c) the acceptance of such appointment to act in accordance with the

terms thereof and of these Conditions by the successor depositary and the payment to the Depositary of all fees, taxes, duties, charges, costs, expenses and other payments as agreed by the Depositary and the Company in any agreement concerning such fees, taxes, duties, charges, costs, expenses and other payments. The Company has undertaken in the Deposit Agreement to use its best endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 23 and to the UK Listing Authority and the London Stock Exchange.

(B) Upon the termination of appointment or resignation of the Depositary, the Depositary shall, against payment of all fees, expenses and charges owing to it by the Company under the Deposit Agreement, deliver to its successor depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all Deposited Property held by it under the Deposit Agreement. Upon the date when such termination of appointment or resignation takes effect, the Deposit Agreement provides that the Custodian shall be deemed to be the Custodian thereunder for such successor depositary and shall hold the Deposited Property for such successor depositary and the resigning Depositary shall thereafter have no obligation thereunder. For the avoidance of doubt, this Condition will be without prejudice to any liabilities of the Depositary which have accrued prior to the date of the termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations which accrued prior to such date.

21. Termination of Deposit Agreement

(A) Subject as set out below, either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 calendar days of the date on which the Depositary has given notice pursuant to Condition 20 and Clause 14 of the Deposit Agreement that it wishes to resign, may terminate the Deposit Agreement by giving 90 calendar days' notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

If the Company terminates the Deposit Agreement, it will (unless the termination is due to the wilful default, negligence or fraud of the Depositary) be obligated, prior to such termination, to reimburse to the Depositary all amounts owed to the Depositary as set out in the Deposit Agreement and in any agreement between the Depositary and the Company.

(B) During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 2, and further upon payment by the Holder of any sums payable by the Depositary to the Custodian in connection therewith for such delivery and surrender but otherwise in accordance with the Deposit Agreement.

(C) If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligations to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

(D) The Company has agreed not to appoint any other depositary for the issue of depositary receipts under the depositary facility established pursuant to the Deposit Agreement so long as JPMorgan Chase Bank, N.A. is acting as Depositary under the Deposit Agreement.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22 and Clause 16 of the Deposit Agreement) may at any time and from time to time be amended by written agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be

materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 2, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, free of the charge specified in sub-paragraph (i) of Condition 16(A) for such delivery and surrender but otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when any such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 2, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders or beneficial owners if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares provided that temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

All notices to Holders shall be validly given if mailed to them at their respective addresses in the register of Holders maintained by the Depositary or furnished to them by electronic transmission as agreed between the Company and the Depositary and, so long as the GDRs are listed on the Official List of the UK Listing Authority and admitted to trading on the market for listed securities of the London Stock Exchange and if and to the extent that the rules of the UK Listing Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK. Any such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed.

All notices required to be given by the Company to the Holders pursuant to any applicable laws, regulations or other agreements shall be given by the Company to the Depositary and upon receipt of any such notices, the Depositary shall forward such notices to the Holders. The Depositary shall not be liable for any notices required to be given by the Company which the Depositary has not received from the Company, nor shall the Depositary be liable to monitor the obligations of the Company to provide such notices to the Holders.

All formal complaints to the Depositary should be made in writing to the compliance officer of the Depositary at the address set out in Clause 17 of the Deposit Agreement.

24. Reports and Information on the Company

(A) The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language by mail, or one copy by facsimile or electronic transmission as agreed between the Company and the Depositary (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange, or another stock exchange, in accordance with Condition 18, as soon as practicable following the publication or availability of such communications. If such communication is not furnished to the Depositary in English, the Depositary shall, at the Company's expense, arrange for an English translation thereof to be prepared.

(B) The Depositary shall, upon receipt thereof, give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

(C) For so long as any Rule 144A GDRs or shares represented thereby are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of Rule 144A GDRs or of the Rule 144A Master GDRs or the beneficial owner of an interest in such GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such owner, beneficial

owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4). If at any time the Company is neither subject to and in compliance with Section 13 or 15(d) of the Exchange Act nor exempt pursuant to Rule 12g3-2(b) under the Exchange Act, the Company shall immediately so notify the Depositary and the Depositary may so notify Holders in writing at the Company's expense. The Company has authorised the Depositary to deliver such information as furnished by the Company to the Depositary during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4) to any such Holder, owner of Rule 144A GDRs, beneficial owner of an interest in Rule 144A GDRs or shares represented thereby or prospective purchaser at the request of such person. The Company has agreed to reimburse the Depositary for its reasonable expenses in connection with such deliveries and to provide the Depositary with such information in such quantities as the Depositary may from time to time reasonably request. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary such number of copies of any notice to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, and any other material (which in the opinion of the Company contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate, upon consultation with the Company, to provide sufficient information) to be prepared. The Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to paragraph (A) of Condition 9, and shall make the same available to Holders in such manner as it may determine.

26. Moneys Held by the Depositary

The Depositary shall be entitled to deal with moneys received by it, in respect of or in connection with the Deposited Property in the same manner as other moneys paid to it as a banker to its customers and shall not be liable to account to the Company or any holder or any other person for any interest on any moneys paid to it by the Company for the purposes of the Deposit Agreement, except as otherwise agreed.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Disclosure of Beneficial Ownership, Other Information and Ownership Restrictions

(A) The Depositary may from time to time request Holders or former Holders to provide information as to the capacity in which they hold or held GDRs and regarding the identity of any other persons then or previously interested in such GDRs and the nature of such interest and various other matters. Each such Holder agrees to provide any such information reasonably requested by the Depositary pursuant to the Deposit Agreement whether or not still a Holder at the time of such request.

(B) To the extent that provisions of or governing any Deposited Property, the constitutive documents, or applicable law may require the disclosure of, or limitations in relation to, beneficial or other ownership of Deposited Property and other securities of the Company, the Holders, owners of GDRs and beneficial owners, as the case may be, shall comply with the Depositary's instructions to Holders, owners and beneficial owners, as the case may be, of GDRs in respect of such disclosure or limitation, as may be forwarded to them from time to time by the Depositary, to the extent they have knowledge of the identity of such owners or beneficial owners.

29. Governing Law

(A) The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law. The rights and obligations attaching to the Deposited Shares will be governed by Cayman Islands law. The Company has submitted in respect of these Conditions to the jurisdiction of the English courts.

(B) The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("**Proceedings**") may be brought in such courts. This submission is made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(C) The Depositary irrevocably appoints the Managing Director for the time being of JPMorgan Chase Bank, N.A., currently situated at 60 Victoria Embankment, Floor 3, London EC4Y OJP as its authorised agent for service of process in England. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Company of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

30. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce these terms and conditions under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that these terms and conditions expressly provide for such Act to apply.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

Upon issue, the GDRs will be evidenced by a single Regulation S Master GDR and a single Rule 144A Master GDR, each in registered form. The Regulation S Master GDR will be deposited with and registered in the name of BNP Paribas Securities Services, Luxembourg branch, as common depositary for Euroclear and Clearstream, Luxembourg, and the Rule 144A Master GDR will be deposited with and registered in the name of Cede & Co. as nominee and held by JPMorgan Chase Bank in New York for DTC. The Regulation S Master GDR and the Rule 144A Master GDR contain provisions that apply to the GDRs while they are in master form, some of which modify the effect of the terms and conditions of the GDRs, set out in the section entitled "Terms and Conditions of the Global Depositary Receipts" (the "Conditions"). The following is a summary of those provisions. Unless otherwise defined herein, terms defined in the Conditions have the same meaning herein.

Exchange

The Regulation S Master GDR and the Rule 144A Master GDR will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances set forth below. The Depositary will undertake in the Regulation S Master GDR and the Rule 144A Master GDR to make available certificates evidencing GDRs in definitive registered form, in whole but not in part, in exchange for either the Regulation S Master GDR or the Rule 144A Master GDR, as the case may be, to GDR holders within 60 calendar days if:

- DTC or any successor, (in the case of the Rule 144A Master GDR), or Euroclear or Clearstream, Luxembourg, or any successor, (in the case of the Regulation S Master GDR) advises the Company or the Depositary, in writing, that it is at any time unwilling or unable to continue as common depositary (or as nominee thereof) and a successor common depositary (or successor nominee thereof), is not appointed within 90 calendar days; or
- in the case of the Rule 144A Master GDR, DTC or any successor ceases to be a "clearing agency" registered under the Exchange Act; or
- either Euroclear or Clearstream, Luxembourg (in the case of the Regulation S Master GDR) or DTC (in the case of the Rule 144A Master GDR) is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or
- the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Company, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs in definitive form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream or Luxembourg or DTC (as the case may be).

Any such exchange will be at the expense (including printing costs) of the relevant GDR holder. Upon:

- any exchange of the Regulation S Master GDR or the Rule 144A Master GDR for a certificate evidencing a GDR or GDRs in definitive form;
- any exchange of interests between the Regulation S Master GDR and the Rule 144A Master GDR pursuant to the terms of the Deposit Agreement;
- any distribution of GDRs pursuant to Conditions 5, 7 or 10;
- any reduction in the number of GDRs represented by the Regulation S Master GDR or the Rule 144A Master GDR following any withdrawal of Deposited Property pursuant to Condition 2; or
- any increase in the number of GDRs following the deposit of shares pursuant to Condition 1,

in each case, the Depositary will enter the relevant details on the register maintained by the Depositary, whereupon the number of GDRs evidenced by the Regulation S Master GDR or the Rule 144A Master GDR shall be decreased or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, provided always that, if the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the Company's obligations under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

The Depositary will make payments of cash dividends and other amounts, including cash distributions, in respect of the GDRs represented by the Regulation S Master GDR or the Rule 144A Master GDR through Euroclear and Clearstream, Luxembourg in respect of the Regulation S Master GDR, and through DTC in respect of the Rule 144A Master GDR, on behalf of persons entitled thereto upon receipt of funds for such purpose from the Company. Any dividend or distribution in the form of shares received by the Depositary on behalf of GDR holders that results in an increase in the number of GDRs will result in an adjustment to the records of the Depositary to reflect the increased number of GDRs evidenced by the Regulation S Master GDR and/or the Rule 144A Master GDR.

Holders of GDRs will have voting rights in respect of the underlying shares as set forth in the Conditions of the GDRs

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary will be satisfied by the production, on behalf of a person entitled to an interest therein, by the common depositary in respect of the Regulation S Master GDR, and by DTC in respect of the Rule 144A Master GDR, of such evidence as the Depositary may reasonably require of such person's entitlement. Such evidence is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg, or DTC or, if relevant, an alternative clearing system. The delivery or production of such evidence will be sufficient evidence, in favour of the Depositary, any Agent and the Custodian, of the title of such person to receive, or to issue instructions for the receipt of, all monies or other property payable or distributable and to issue voting instructions in respect of the Deposited Property evidenced by such GDRs.

Notices

For so long as the Regulation S Master GDR is registered in the name of a common depositary (or its nominee) on behalf of Euroclear and Clearstream, Luxembourg, and for so long as the Rule 144A Master GDR is registered in the name of DTC or its nominee, notices to GDR holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg in respect of the Regulation S Master GDR, and to DTC or its nominee in respect of the Rule 144A Master GDR, for communication to persons entitled thereto in substitution for the delivery of notices in accordance with Condition 23. So long as the GDRs are listed on the Official List maintained by the Financial Services Authority and admitted to trading on the regulated market of the London Stock Exchange, and the Financial Services Authority or the London Stock Exchange so requires, the Depositary must also publish notices in a leading newspaper having general circulation in the United Kingdom (which is expected to be the Financial Times).

The Regulation S Master GDR and the Rule 144A Master GDR will be governed by and construed in accordance with English law.

MATERIAL TAX CONSIDERATIONS

The following summary of material Cayman Islands, US federal income and UK tax consequences of ownership of Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations after the date of this Prospectus may alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Shares and holders of GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Shares or GDRs. Each prospective holder is urged to consult his or her own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

Cayman Islands Tax Considerations

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the ordinary shares. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

You will not be subject to Cayman Islands taxation on payments of dividends or upon the repurchase by us of your ordinary shares. In addition, you will not be subject to withholding tax on payments of dividends or distributions, including upon a return of capital, nor will gains derived from the disposal of ordinary shares be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No Cayman Islands stamp duty will be payable by you in respect of the issue or transfer of ordinary shares. However, an instrument transferring title to a common share, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

We were incorporated under the laws of the Cayman Islands as an exempted company and, as such, for a period of 20 years, no law which is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to us and no such tax and no tax in the nature of estate duty or inheritance tax will be payable, either directly or by way of withholding, on its ordinary shares. This undertaking would not, however, prevent the imposition of taxes on any person ordinarily resident in the Cayman Islands or any company in respect of its ownership of real property or leasehold interests in the Cayman Islands.

United States Federal Income Tax Considerations

The following discussion is a general summary based on current law of certain material US federal income tax considerations relevant to the purchase, ownership and disposition of the Shares or GDRs by a US Holder (as defined below). The discussion is based on the Internal Revenue Code of 1986, as amended (the "IRC"), its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly with retroactive effect.

The discussion is not a complete description of all tax considerations that may be relevant to investors and does not consider an investor's particular circumstances. It applies to US Holders that purchase GDRs in the Offering, hold the Shares and/or GDRs as capital assets and use the US dollar as functional currency. It does not address the tax treatment of investors subject to special rules, such as banks or other financial institutions, tax-exempt entities, insurance companies, dealers, traders in securities that elect to mark to market, investors liable for alternative minimum tax, US expatriates, investors that directly, indirectly or constructively own 10.0% or more of the total combined voting power of our voting shares, including Shares represented by GDRs, dual-resident investors, partnerships or other pass-through entities or investors that hold Shares or GDRs as part of a straddle, hedging, conversion or other integrated transaction.

This discussion assumes that we are not a passive foreign investment company ("PFIC") for US federal income tax purposes. We do not believe that we will be a PFIC for the current taxable year or for subsequent taxable years. Our status as a PFIC must be determined annually and therefore may be subject to change

depending upon, among other things, changes in our activities or assets, as well as our spending schedule for our cash balances and the proceeds of the Offering. If we were to become a PFIC for any taxable year, materially adverse consequences could result to US Holders (whether or not we continued to be a PFIC for any subsequent taxable year).

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, US HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN BY US TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY US HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON US HOLDERS UNDER THE IRC; (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY US, AND THE MANAGERS OF THE OFFERING; AND (C) EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE SHARES OR GDRS UNDER THE LAWS OF THE CAYMAN ISLANDS, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS, AND ANY OTHER JURISDICTIONS WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

As used here, a "US Holder" means a beneficial owner of the Shares or GDRs that is for US federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation or other business entity taxable as a corporation that is created or organized under the laws of the United States or any state thereof (including the District of Columbia), (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust, if (A) a US court can exercise primary supervision over the trust's administration and one or more US persons are authorized to control all substantial decisions of the trust or (B) the trust has made a valid election to be treated as a US person. The US federal income tax treatment of a partner in a partnership, or any other entity treated as a partnership for US federal income tax purposes, that holds Shares or GDRs will generally depend upon the status of the partner and the activities of the partnership. A partner in a partnership holding Shares or GDRs should consult its tax advisors concerning the US federal income tax consequences of the acquisition, ownership and disposition of Shares or GDRs by the partnership.

Generally, holders of GDRs will be treated for US federal income tax purposes as holding the Shares represented by the GDRs. No gain or loss will be recognized upon the exchange of Shares for GDRs or an exchange of GDRs for Shares.

Taxation of Distributions

The gross amount (including any applicable withholding taxes) of any distributions made to a US Holder on the Shares or GDRs will be treated as taxable dividends to the extent such distributions are paid out of the Company's current or accumulated earnings and profits, as determined under US federal income tax principles. Such dividends will be includible in a US Holder's gross income as ordinary income from foreign sources when the US Holder actually or constructively receives the dividend. The dividends will not be eligible for the dividends received deduction generally allowed to US corporations. The dividends will not qualify for the preferential treatment afforded "qualified dividend income".

To the extent that a distribution made to a US Holder exceeds our current or accumulated earnings and profits, such distribution will be treated first as a tax free return of capital up to such US Holder's adjusted tax basis in the Shares or GDRs with respect to which the distribution is made, and then as a gain from the sale, exchange or other disposition of the Shares or GDRs, with the tax consequences described below. However, we do not intend to determine our earnings and profits under US federal income tax principles, in which event a US Holder will be unable to establish that a distribution is not out of earnings and profits and will generally be required to treat the full amount of the distribution as a dividend.

Dividends paid to US Holders with respect to Shares or GDRs will be treated as foreign source "passive category income", but could, in the case of certain US Holders, constitute "general category income" for foreign tax credit purposes.

Taxation of Dispositions

When a US Holder disposes of Shares or GDRs, such holder will recognize a gain or loss in an amount equal to the difference between the amount realized and such holder's adjusted tax basis in the Shares or GDRs. A US Holder's adjusted tax basis in a Share or GDR will generally be its US dollar cost. The gain or loss

generally will be US-source gain or loss for foreign tax credit purposes, and will be long-term capital gain or loss if the US Holder has held the Shares or GDRs for more than one year. If a US Holder is an individual, long term capital gain from the sale, exchange or other disposition of Shares or GDRs is eligible for preferential rates of taxation. Deductions for capital losses are subject to limitations.

Passive Foreign Investment Company Status

The IRC provides special anti-deferral rules regarding certain distributions received by US persons with respect to, and sales and other dispositions (including pledges) of, stock of a PFIC. We will be classified as a PFIC for US federal income tax purposes in any taxable year in which, after applying the relevant look-through rules with respect to income and assets of subsidiaries, either at least 75.0% of our gross income is "passive income" or at least 50.0% of the gross average value of our assets is attributable to assets that produce, or are held for the production of, passive income. We expect to conduct our affairs in such a manner that we will not be considered a PFIC in 2007 or the foreseeable future.

Backup Withholding and Information Reporting

Dividends on the Shares of GDRs and proceeds from the sale or other disposition of the Shares of will be subject to US information reporting requirements. Backup withholding tax at a current rate of 28.0% may apply to amounts subject to reporting unless the US holder (i) is a corporation or otherwise establishes a basis for exemption or (ii) provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding or otherwise establishes a basis for exemption and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. US Holders can claim a credit against their US federal income tax liability for amounts withheld under the backup withholding rules, and amounts in excess of their liability are refundable if the required information is provided to the IRS.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE SHARES OR GDRS UNDER THE INVESTOR'S OWN CIRCUMSTANCES.

United Kingdom Tax Considerations

The comments below are of a general nature and are based on current UK law and HM Revenue & Customs practice at the date of this Prospectus. Except as otherwise stated, the summary only discusses certain UK tax consequences of holding the Shares or the GDRs for the absolute beneficial owners of the Shares or the GDRs who are resident (or, in the case of individuals only, ordinarily resident and domiciled) in the UK for tax purposes ("UK Holders"). In addition, the summary (1) only addresses the tax consequences for UK Holders who hold the Shares or the GDRs as capital assets, and does not address the tax consequences which may be relevant to certain other categories of UK Holders, for example, dealers; (2) assumes that the UK Holder, either alone or together with one or more associated or connected persons, does not directly or indirectly control or hold 10.0% or more of our shares and/or voting power; (3) assumes that a holder of the GDRs is beneficially entitled to the underlying Shares and to the dividends on those Shares; (4) assumes that there will be no register in the UK in respect of the Shares or GDRs; (5) assumes that the Shares will not be held by, and that the GDRs will not be issued by, a depositary incorporated in the UK and (6) assumes that neither the Shares nor the GDRs will be paired with shares issued by a company incorporated in the UK.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular UK Holder. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and HM Revenue & Customs practice, of the acquisition, ownership and disposal of the Shares or the GDRs in their own particular circumstances, by consulting their own tax advisors.

Provision of Information

Persons in the United Kingdom paying "foreign dividends" to, or receiving "foreign dividends" on behalf of, an individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or the person entitled to the "foreign dividend" and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the Shares or the GDRs may constitute "foreign dividends" for this purpose.

Withholding Tax

Assuming that the income received under the GDRs does not have a UK source, there should be no UK withholding tax on payments under the GDRs. Dividend payments in respect of the Shares will not be subject to UK withholding tax.

Taxation of Dividends

A UK Holder who is an individual resident, ordinarily resident and domiciled in the UK will generally be subject to UK income tax on the dividend paid on the Shares or the GDRs.

A corporate UK Holder will generally be subject to UK corporation tax on the dividend paid on the Shares or the GDRs. A corporate holder of the Shares or the GDRs that is not resident in the UK will generally be subject to UK corporation tax on the dividend paid on the Shares or the GDRs where the Shares or the GDRs in question are attributable to a trade carried on by the holder in the UK through a permanent establishment in the UK.

Taxation of Disposals

The disposal by a UK Holder of interests in the Shares or the GDRs may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of chargeable gains, depending on the UK Holder's circumstances and subject to any available exemption or relief.

An individual holder of the Shares or the GDRs who is neither resident nor ordinarily resident in the UK for UK tax purposes for a period of less than five years, but who was previously resident or ordinarily resident in the UK, and who disposes of such Shares or GDRs during the period of non-residence may also be liable on returning to the UK for UK tax on capital gains despite the fact that the individual was not resident or ordinarily resident in the UK for UK tax purposes at the time of the disposal.

A corporate UK Holder will generally be subject to UK corporation tax on any chargeable gain arising from a disposal of the Shares or the GDRs.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

No UK stamp duty should be payable on the issue of Shares or GDRs. Assuming that any document effecting a transfer of, or containing an agreement to transfer an equitable interest in, one or more of the Shares or the GDRs is neither (i) executed in the UK nor (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK (which may include involvement of UK bank accounts in payment mechanics), then no UK ad valorem stamp duty should be payable on such a document.

Even if a document effecting a transfer of, or containing an agreement to transfer an equitable interest in, one or more of the Shares or the GDRs is (i) executed in the UK and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK, in practice it should not be necessary to pay any UK ad valorem stamp duty on such document unless the document is required for any purposes in the UK. If it is necessary to pay UK ad valorem stamp duty, it may also be necessary to pay interest and penalties.

No SDRT should be payable in respect of the issue of, or any agreement to transfer, the Shares or the GDRs.

Inheritance Tax

UK inheritance Tax may be charged on the death of, or in certain circumstances on a gift by the owner of GDRs, when the owner is an individual who is domiciled or deemed to be domiciled in the UK. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rates apply to gifts where the donor reserves or retain some benefit.

SUBSCRIPTION AND SALE

Under the terms of, and subject to the conditions contained in, an underwriting agreement, dated ●, 2007 (the "Underwriting Agreement"), among the Company, the Selling Shareholders and each Manager, the Managers have severally agreed to procure subscribers and/or purchasers for, or failing which, themselves to subscribe for and/or purchase, at the Offer Price, the number of Shares in the form of GDRs indicated below. The Company and the Selling Shareholders have each agreed to sell to the Managers, at the Offer Price, the number of Shares in the form of GDRs indicated in the first column below. Pursuant to the Over-Allotment Option, the Company has agreed to sell to the Managers, at the Offer Price, the number of Shares in the form of GDRs indicated in the second column below.

Manager	Number of Shares	Number of Shares in respect of the Over-Allotment Option
J.P. Morgan Securities Ltd.		
UBS Limited		
Alfa Capital Holdings (Cyprus) Limited, London Branch		
Total		

The Offer Price will be determined on the basis of a bookbuilding process.

The Underwriting Agreement contains the following further provisions, among others:

- The Company will grant to the Lead Managers, on behalf of the Managers, the Over-Allotment Option to acquire up to ● additional Shares in the form of up to ● GDRs at the Offer Price for the purposes of meeting over-allotments in connection with the Offering and to cover short positions resulting from stabilizing transactions. The Over-Allotment Option is exercisable upon written notice to the Company by the Lead Managers, on behalf of the Managers, given at any time from the date hereof up to 30 days following the announcement of the Offer Price.
- The Managers will deduct from the proceeds of the Offering, (a) certain costs and expenses incurred by the Managers in connection with the Offering, (b) underwriting commissions payable by the Company and the Selling Shareholders, in respect of the Offering (assuming no exercise of the Over-Allotment Option), and (c) underwriting commissions payable by the Company in respect of any additional GDRs offered as a result of the exercise of the Over-Allotment Option.
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, among others, the accuracy of the representations and warranties given in the Underwriting Agreement and the application for Admission having been approved on or prior to the Closing Date. The Managers may terminate the Underwriting Agreement prior to Admission in certain specified circumstances that are typical for an agreement of this nature. If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to, Admission, then the Offering will lapse.
- The Company has given customary representations and warranties to the Managers, including in relation to the business, the accounting records and the legal compliance of the Company, in relation to the Shares and GDRs and in relation to the contents of the Prospectus. The Selling Shareholders have given customary representations and warranties to the Managers, including in relation to their title to the Shares that they have agreed to sell to the Managers.
- The Company and the Selling Shareholders have given customary indemnities to the Managers against certain liabilities in connection with the Offering, or to contribute to payments that the Managers may be required to make because of any of those liabilities.

Each of the Company and certain of our shareholders who enter into lock-up agreements may not, for a period commencing on the date of the Underwriting Agreement and ending 180 days, or, with respect to Alexander Yu. Djaparidze, 360 days, after the Closing Date:

(i) issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to issue, grant any option, right or warrant to purchase, lend or otherwise dispose of (or publicly announce any of the foregoing), directly or indirectly,

any Shares, GDRs or certain other securities whose value is derivative of the Shares or GDRs (in each case, which are legally or beneficially owned or otherwise held or controlled by them); or

(ii) enter into transactions with a similar effect to any of the foregoing,

in each case, subject to certain exceptions or without the prior written consent of the Managers.

In connection with the Offering, the Stabilizing Manager, or persons acting on its behalf, may, on behalf of the Managers, over-allot or effect transactions in the GDRs with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. However, the Stabilizing Manager, or such agents, have no obligation to do so. Such stabilization, if commenced, may begin on the date of adequate public disclosure of the Offer Price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 days after the date of such adequate disclosure of the Offer Price. The Managers do not intend to disclose the extent of any such stabilization transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Managers and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for the Company and its affiliates, for which they received customary fees and commissions. The Managers and their respective affiliates may provide such services for the Company and its affiliates in the future.

In connection with the Offering, each of the Managers and any of their respective affiliates acting as an investor for its own account may take up the Shares and in that capacity may retain, purchase or sell the Shares, in each case in the form of GDRs (or related investments), for its own account and may offer or sell such securities (or other investments) otherwise than in connection with the Offering. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company does not believe that any of its major shareholders or members of its administrative, management or supervisory boards intends to subscribe in the Offering. The Company is not aware of whether any person intends to subscribe for more than 5.0% of the Offering.

JPMorgan Chase Bank, N.A., which is an affiliate of J.P. Morgan Securities Ltd., has been appointed by the Company to act as Depositary in connection with the issuance of the GDRs.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

Cayman Islands

No offer or invitation to subscribe for our Shares or the GDRs may be made to the public in the Cayman Islands.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") an offer to the public of any Shares or GDRs which are the subject of the offering contemplated by this Prospectus may not be made in that Relevant Member State other than the offering contemplated by this Prospectus in the United Kingdom once this Prospectus has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive as implemented in the United Kingdom except that an offer to the public in that Relevant Member State of any Shares or GDRs may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(i) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(iii) by the Managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Managers for any such offer; or

(iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided, that, no such offer of Shares or GDRs shall result in a requirement for the publication by the Company or any Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares and GDRs to be offered so as to enable an investor to decide to purchase any Shares or GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Manager has represented and agreed that it has:

- only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

United States

The Shares and the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act and in compliance with any applicable state securities laws. GDRs are being offered to investors outside the United States in reliance on Regulation S. The Underwriting Agreement provides that the Managers may through their respective US broker-dealer affiliates arrange for the offer and resale of GDRs within the United States only to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act.

Russia

Each of the Managers has represented, warranted and agreed that the GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation unless and to the extent otherwise permitted under Russian law; it being understood and agreed that the Managers may distribute the Prospectus to persons in the Russian Federation in a manner that does not constitute advertisement (as defined in Russian law) of the GDRs and may sell the GDRs to Russian persons in a manner that does not constitute "placement" or "public circulation" of the GDRs in the Russian Federation (as defined in Russian law).

Canada

This document is not, and under no circumstances is it to be construed as, a prospectus, an advertisement or a public offering of the securities described herein in Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

Representations and Agreements by Purchasers

The Offering is being made in Canada only in the Canadian provinces of British Columbia, Ontario and Québec (the "Canadian Jurisdictions") by way of a private placement of GDRs. The Offering in the Canadian Jurisdictions is being made pursuant to this Prospectus through the Managers named in this Prospectus or through their selling agents who are permitted under applicable law to distribute such securities in Canada. Each Canadian investor who purchases the GDRs will be deemed to have represented to the Company, the Selling Shareholders and the Managers that: (1) the offer and sale was made exclusively through this Prospectus and was not made through an advertisement of the GDRs in any printed media of general and regular paid circulation, radio, television or telecommunications, including electronic display, or any other form of advertising in Canada; (2) such investor has reviewed the terms referred to below under "Canadian Resale Restrictions"; (3) where required by law, such investor is, or is deemed to be, acquiring the GDRs as principal for its own account in accordance with the laws of the Canadian Jurisdiction in which the investor is resident and not as agent or trustee; (4) such investor or any ultimate investor for which such investor is acting as agent is entitled under applicable Canadian securities laws to acquire the GDRs without the benefit of a prospectus qualified under such securities laws, and without limiting the generality of the foregoing: (i) in the case of an investor resident in British Columbia or Québec, without the Manager having to be registered; (ii) in the case of an investor resident in British Columbia or Québec, such investor is an "accredited investor" as defined in section 1.1 of National Instrument 45-106 — *Prospectus and Registration Exemptions* ("NI 45-106"); and (iii) in the case of an investor resident in Ontario, such investor, or any ultimate investor for which such investor is acting as agent (a) is an "accredited investor", other than an individual, as defined in NI 45-106 and is a person to which a dealer registered as an international dealer within the meaning of section 98 of Regulation 1015 to the *Securities Act* (Ontario) (the "OSA") in Ontario may sell the GDRs or (b) is an "accredited investor", including an individual, as defined in NI 45-106 who is purchasing the GDRs from a fully registered dealer within the meaning of section 204 of Regulation 1015 to the OSA; and (5) such investor, if not an individual or an investment fund, has a pre-existing purpose and was not established solely or primarily for the purpose of acquiring the GDRs in reliance on an exemption from applicable prospectus requirements in the Canadian Jurisdictions.

Each resident of Ontario who purchases the GDRs will be deemed to have represented to the Company and the Managers that such investor: (a) has been notified by the Company (i) that the Company is required to provide information ("personal information") pertaining to the investor as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of any GDRs purchased), which Form 45-106F1 is required to be filed by the Company under NI 45-106; (ii) that such personal information will be delivered to the Ontario Securities Commission (the "OSC") in accordance with NI 45-106; (iii) that such personal information is being collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario; (iv) that such personal information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and (v) that the public official in Ontario who can answer questions about the OSC's indirect collection of such personal information is the Administration Assistant to the Director of Corporate Finance at the OSC, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-8086; and (b) has authorized the indirect collection of the personal information by the OSC. Further, the investor acknowledges that its name, address, telephone number and other specified information, including the number of GDRs it has purchased and the aggregate purchase price to the purchaser, may be disclosed to other Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable laws. Each resident of

British Columbia or Québec who purchases the GDRs hereby acknowledges to the Company and the Managers that its name and other specific information, including the aggregate amount of the GDRs it has purchased and the aggregate purchase price to the investor, may be disclosed to Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable Canadian securities laws. By purchasing the GDRs, each Canadian investor consents to the disclosure of such information.

Agreement by the Managers

Each Manager has represented and agreed that the GDRs will be offered or sold, directly or indirectly, in Canada only in the Canadian Jurisdictions and in compliance with applicable Canadian securities laws and accordingly, any sales of GDRs will be made (i) through an appropriately registered securities dealer or in accordance with an available exemption from the registered securities dealer requirements of applicable Canadian securities laws and (ii) pursuant to an exemption from the prospectus requirements of such laws.

Language of Document

Each purchaser of GDRs in Canada that receives a purchase confirmation hereby agrees that it is such purchaser's express wish that all documents evidencing or relating in any way to the sale of such GDRs be drafted in the English language only. *Chaque acheteur au Canada des valeurs mobilières recevant un avis de confirmation à l'égard de son acquisition reconnaît que c'est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des valeurs mobilières soient rédigés uniquement en anglais.*

Canadian Resale Restrictions

The distribution of the GDRs in the Canadian Jurisdictions is being made on a private placement basis. Accordingly, any resale of the GDRs must be made (i) through an appropriately registered dealer or in accordance with an available exemption from the dealer registration requirements of applicable provincial securities laws and (ii) in accordance with, or pursuant to an exemption from, the prospectus requirements of such laws. Such resale restrictions may not apply to resales made outside of Canada, depending on the circumstances. Purchasers of GDRs are advised to seek legal advice prior to any resale of GDRs.

The Company is not, and may never be, a "reporting issuer", as such term is defined under applicable Canadian securities legislation, in any province or territory of Canada and there currently is no public market for any of the securities of the Company in Canada, including the GDRs, and one may never develop. Under no circumstances will the Company be required to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the GDRs to the public in any province or territory of Canada. Canadian investors are advised that the Company currently has no intention of filing a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the GDRs to the public in any province or territory in Canada.

Rights of Action for Damages or Rescission (Ontario)

Securities legislation in Ontario provides investors in GDRs pursuant to this Prospectus with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where this Prospectus or any amendment to it, contains a "Misrepresentation". Where used herein, "Misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by the applicable securities legislation.

Section 130.1 of the OSA provides that every purchaser of securities pursuant to an offering memorandum (such as this Prospectus) shall have a statutory right of action for damages or rescission against the issuer in the event that the offering memorandum contains a Misrepresentation. A purchaser who purchases securities offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the Misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer provided that:

(a) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against the issuer;

(b) the issuer will not be liable if it proves that the purchaser purchased the securities with knowledge of the Misrepresentation;

(c) the issuer will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and

(d) in no case shall the amount recoverable exceed the price at which the securities were offered.

Subject to the paragraph below, all or any one or more of the issuer and any selling securityholder are jointly and severally liable, and every person or company who becomes liable to make any payment for a Misrepresentation may recover a contribution from any person or company who, if sued separately, would have been liable to make the same payment, unless the court rules that, in all the circumstances of the case, to permit recovery of the contribution would not be just and equitable.

Despite the paragraph above, the issuer shall not be liable where it is not receiving any proceeds from the distribution of the securities being distributed and the Misrepresentation was not based on information provided by the issuer, unless the Misrepresentation (a) was based on information that was previously publicly disclosed by the issuer, (b) was a Misrepresentation at the time of its previous public disclosure and (c) was not subsequently publicly corrected or superseded by the issuer prior to the completion of the distribution of the securities.

Section 138 of the OSA provides that no action shall be commenced to enforce these rights more than:

(a) in the case of an action for rescission, 180 days from the day of the transaction that gave rise to the cause of action; or

(b) in the case of an action for damages, the earlier of:

  (i) 180 days from the day that the purchaser first had knowledge of the facts giving rise to the cause of action; or

  (ii) three years from the day of the transaction that gave rise to the cause of action.

The rights referred to in section 130.1 of the OSA do not apply in respect of an offering memorandum (such as this Prospectus) delivered to a prospective purchaser in connection with a distribution made in reliance on the exemption from the prospectus requirement in section 2.3 of NI 45-106 (the "accredited investor exemption") if the prospective purchaser is:

(a) a Canadian financial institution (as defined in NI 45-106) or a Schedule III bank,

(b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada), or

(c) a subsidiary of any person referred to in paragraphs (a) or (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

The foregoing summary is subject to the express provisions of the OSA and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. Such provisions may contain limitations and statutory defences on which the Company and the Selling Shareholders may rely. ***Prospective purchasers should refer to the applicable provisions of the relevant securities legislation and are advised to consult their own legal advisers as to which, or whether any, of such rights may be available to them.*** The enforceability of these rights may be limited as described herein under "Enforcement of Legal Rights".

The rights of action discussed above will be granted to the purchasers to whom such rights are conferred upon acceptance by the relevant Manager of the purchase price for the GDRs. The rights discussed above are in addition to and without derogation from any other right or remedy which purchasers may have at law.

Enforcement of Legal Rights

All of the directors and officers (or their equivalents) of the Company and the Selling Shareholders, as well as any experts named herein, may be located outside of Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Company, the Selling Shareholders or such experts. All or a substantial portion of the assets of the Company, the Selling Shareholders and such experts may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the Company, the Selling Shareholders or such experts in Canada or to enforce a judgment obtained in Canadian courts against the Company, the Selling Shareholders or such experts outside of Canada.

Canadian Tax Considerations and Eligibility for Investment

This Prospectus does not address the Canadian tax consequences of ownership of the GDRs. Prospective purchasers of GDRs should consult their own tax advisers with respect to the Canadian and other tax considerations applicable to their individual circumstances and with respect to the eligibility of the GDRs for investment by purchasers under relevant Canadian legislation.

General

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Shares or the GDRs, or the possession or distribution of this Prospectus or any other material relating to the Offering or the Shares and GDRs, where action for such purpose is required. Accordingly, the Shares and GDRs, may not be offered or sold, directly or indirectly, nor may this Prospectus or any other offering material or advertisement in connection with such Shares or GDRs be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulation of any such country or jurisdiction.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or any Manager. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the GDRs to which it relates or an offer to sell or the solicitation of an offer to buy such GDRs in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the Company's affairs since the date hereof or that the information contained in this Prospectus is correct as of a date after its date.

Buyer's Representation

Each subscriber for, or purchaser of, GDRs in the Offering located within a Member State of the European Economic Area will be deemed to have represented, warranted and agreed to and with each Manager and the Company that:

(a) it is a qualified investor within the meaning of Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any GDRs being offered to a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, the Securities acquired by it in the Offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any GDRs to the public other than their offer or resale in a Relevant Member State to qualified investors, as that term is defined in the Prospectus Directive or in circumstances in which the prior consent of the Managers has been given to the offer or resale. The Company, the Managers and their Affiliates, and others will rely (and the Company acknowledges that the Managers and their Affiliates, and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements. Notwithstanding the foregoing, a person who is not a qualified investor and who has notified the Managers of such fact in writing may, with the consent of the Managers, be permitted to subscribe for or purchase GDRs in the Offering.

The Company, the Managers and their Affiliates may rely upon the truth and accuracy of the aforementioned deemed representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

Transfer restrictions

None of the Shares or the GDRs has been or will be registered under the Securities Act, and the Shares and the GDRs may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the GDRs are being offered and sold only:

(a) to QIBs in compliance with Rule 144A; and

(b) in offshore transactions in compliance with Regulation S. As used in this Prospectus, the term "offshore transaction" has the meaning given to it in Regulation S.

Rule 144A GDRs

Each purchaser of Rule 144A GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. The purchaser (i) is a QIB, (ii) is aware, and each beneficial owner of such Rule 144A GDRs has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Rule 144A GDRs for its own account or for the account of a QIB.

2. The purchaser is aware that the Rule 144A GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that the GDRs and the Shares represented thereby are subject to significant restrictions on transfer.

3. If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Rule 144A GDRs or the Shares represented thereby, such Rule 144A GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Rule 144A GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

   THIS RULE 144A MASTER GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF EURASIA DRILLING COMPANY LIMITED REPRESENTED HEREBY (THE "**SHARES**") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE HOLDER HEREOF BY PURCHASING THE GLOBAL DEPOSITARY RECEIPTS AGREES FOR THE BENEFIT OF EURASIA DRILLING COMPANY LIMITED THAT THE GLOBAL DEPOSITARY RECEIPTS AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("**QIB**") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (B) ABOVE, THE TRANSFEROR SHALL PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES FROM THE RULE 144A FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE DEPOSIT AGREEMENT FOR DEPOSIT IN THE REGULATION S FACILITY (AS DEFINED IN THE DEPOSIT AGREEMENT) THEREUNDER AND THAT REGULATION S GLOBAL DEPOSITARY RECEIPTS REPRESENTED BY A REGULATION S MASTER GLOBAL DEPOSITARY RECEIPT BE ISSUED, IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT, IN RESPECT OF SUCH PERSON. THE HOLDER OF THE GLOBAL DEPOSITARY RECEIPTS WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GLOBAL DEPOSITARY RECEIPTS OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144 UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

   IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE CAYMAN ISLANDS SHARE REGISTRAR OF THE COMPANY IN THE NAME OF JPMORGAN CHASE BANK, N.A. AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORISED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY ("**DTC**"), TO THE AGENT AUTHORISED BY EURASIA DRILLING COMPANY LIMITED FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORISED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREUNDER IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORISED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO. HAS AN INTEREST HEREIN.

4. The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of Rule 144A GDRs will be deemed to have acknowledged that the Company, the Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of the Rule 144A GDRs are no longer accurate, it shall promptly notify the Company and the Managers. If it is acquiring the Rule 144A GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing representations and agreements on behalf of each account.

Prospective purchasers are hereby notified that sellers of the Rule 144A GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S GDRs

Each purchaser of Regulation S GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. The purchaser (i) is, and the person, if any, for whose account it is acquiring the Regulation S GDRs is, outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate and (iii) is not a securities dealer or, if it is a securities dealer, it did not acquire the Regulation S GDRs or the Shares represented thereby from the Company or an affiliate thereof in the initial distribution of Regulation S.

2. The purchaser is aware that the Regulation S GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act, and are being offered outside the United States in reliance on Regulation S.

3. The purchaser acknowledges that the Depositary will not be required to accept for registration of transfer any GDRs acquired by such purchaser, except upon presentation of evidence satisfactory to the Company and the Depositary that the restrictions set forth herein have been complied with.

Each purchaser of Regulation S GDRs will be deemed to have acknowledged that the Company, the Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of the Regulation S GDRs are no longer accurate, it shall promptly notify the Company and the Managers. If it is acquiring the Regulation S GDRs as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

SETTLEMENT AND TRANSFER

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including Managers, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerized book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Material Tax Considerations—United States Federal Income Tax Considerations".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Regulation S Master GDR Certificate registered in the name of BNP Paribas Securities Services, Luxembourg branch, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Rule 144A Master GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depositary as custodian for DTC. As necessary, the Registrar will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxemburg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear and Clearstream are paid by it to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are paid by it to DTC.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDRs. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

For a description of transfer restrictions relating to the GDRs, see "Selling and Transfer Restrictions".

Trading between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Rule 144A Master GDR Certificate and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Regulation S Master GDR Certificate.

Trading between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least two business days prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Regulation S Master GDR Certificate and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Rule 144A Master GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxemburg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxemburg and DTC, none of Euroclear, Clearstream, Luxemburg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxemburg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is JPMorgan Chase Bank, N.A., a national banking association, organized under the laws of the United States and with its main office in Columbus, Ohio, United States of America. JPMorgan Chase Bank, N.A., is the principal banking subsidiary of JPMorgan Chase & Co. The Depositary was organized as a national banking association under the National Bank Act on November 13, 2004. Previously, it had been a banking corporation incorporated under the Banking Law of New York. The Depositary is subject to the regulation of, and supervision by, the Office of the Comptroller of the Currency. The registered office of the Depositary is located at 1111 Polaris Parkway, Columbus, Ohio, United States of America. A copy of JPMorgan Chase & Co.'s by-laws, as amended, together with copies of the most recent consolidated reports of condition and income — FFIEC 031 (call reports) — will be available for inspection at the Office of the Secretary, JPMorgan Chase & Co., located at 270 Park Avenue, New York, New York 10017, United States of America.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us with respect to US and English law by Skadden, Arps, Slate, Meagher & Flom (UK) LLP. Certain other legal matters will be passed upon for us by The Stinemetz Law Firm. Certain legal matters with respect to Cayman Islands law will be passed upon for us by Walkers Global. Certain legal matters in connection with the Offering will be passed upon for the Managers with respect to US and English law by Linklaters LLP.

INDEPENDENT AUDITORS

The Audited Consolidated Financial Statements of the Company as of and for the years ended December 31, 2006 and 2005 included in this Prospectus have been audited by KPMG Limited, independent auditors, 11 Gogolevsky Boulevard, Moscow 119019, Russian Federation, as stated in their report appearing herein. With respect to the Unaudited Interim Financial Statements for the six months ended June 30, 2007 and 2006 included in this Prospectus, KPMG Limited has reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

GENERAL INFORMATION

1. The Company was incorporated in the Cayman Islands on November 25, 2002 as an exempted company with limited liability with registered number 121302. The Company's registered office is Boundary Hall, Cricket Square, PO Box 1111, Grand Cayman KY1-1102, Cayman Islands, and the telephone number of such registered office is +1 (345) 949 5122. The Company's principal place of business is No. 53, Mykonos Court, Aristide Charalambous 2, 1077 Nicosia, Cyprus, the address of the Company's wholly-owned subsidiary, Cypress Oilfield Holdings Limited. Its principal business is the ownership of BKE, an indirect wholly-owned subsidiary of the Company operating in the Russian Federation; the telephone number of such principal place of business is + 357 22 378178.

2. The following is a list of the Company's direct and indirect subsidiaries, showing their date of establishment, registered office addresses, principal business activities and country of incorporation, together with the Company's direct and indirect ownership of the share capital or ownership interests, as the case may be.

Name	Date Established	Registered Office Address	Principal Business	Country of Incorporation	Ownership
Eurasia Drilling Company Limited	November 25, 2002	Boundary Hall, Cricket Square, PO Box 1111, Grand Cayman KY1-1102, Cayman Islands	Holding Company	Cayman Islands	N/A
Cypress Oilfield Holdings Limited	February 19, 2003	Lampousas, 1 P.C. 1095, Nicosia, Cyprus	Holding Company	Cyprus	100%
BKE Oilfield Service Holdings Limited	September 06, 2006	Lampousas, 1 P.C. 1095, Nicosia, Cyprus	Holding Company	Cyprus	100%
AstraOrient Limited	September 28, 1998	Lampousas, 1 P.C. 1095, Nicosia, Cyprus	Asset Ownership	Cyprus	100%
EDC International B.V.	March 06, 2007	Strawinskylaan 3105, 1077ZX, Amsterdam	Holding Company	The Netherlands	100%
EDC SHELF LTD.	August 07, 1998	Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands	Drilling Services	British Virgin Islands	100%
LLC "Burovaya Kompaniya "Eurasia"	May 17, 1995	Russia, Moscow, Leninsky Prospekt, 15a, 8 and 9th Floors	Drilling Services	Russia	100%
LLC "BKE Turon Burenie"	August 23, 2006	Uzbekistan, Tashkent, Oibek St., 24	Drilling Services	Uzbekistan	100%
LLP "BKE Kazakhstan Burenie"	May 29, 2006	Kazakhstan, Mangistauskya area, Aktau, mikroraion 7, house 12, flat 110	Drilling Services	Kazakhstan	100%.
LLC "BKE Shelf"	April 11, 2007	Russia, Astrakhan region, Narimanovsky district, pos. Trusovo, Severnaya street, 7	Drilling Services	Russia	100%
LLC "Osinskoye Upravleniye Tekhnologiches-kogo Transporta"	June 14, 2006	Russia, Permsky region, Osinsky district, pos. Svetly, Promyshlennaya street, 3	Transportation services	Russia	90.0%

3. The issue of the Company's shares was authorized by the Board of Directors at a meeting held on ● 2007.

4. On ●, 2007 the Board of Directors resolved to enter into the Underwriting Agreement and the Deposit Agreement and to make an application to the Financial Services Authority for approval of this Prospectus and for publication thereof and for the admission of the GDRs to the Official List of the Financial Services Authority and for such GDRs to be admitted to trading on the International Order Book of the London Stock Exchange.

5. Admission of the GDRs to the Official List of the Financial Services Authority and to trading on the London Stock Exchange's regulated market is expected to take place on ● 2007 following closing and settlement on ● 2007.

6. There has been no significant change in the financial or trading position of the Company or the Group since June 30, 2007, the date to which the historical financial information set out in this Prospectus has been prepared.

7. Copies of the following will be available for inspection, and may be obtained free of charge, during normal business hours on any weekday, at the registered office of the Company from the date of this Prospectus until 12 months after the date of this Prospectus:

   - The Company's memorandum and articles of association;
   - The Company's consolidated financial statements for the financial years ended December 31, 2006 and 2005 and the six-month period ended June 30, 2007 and 2006;
   - A copy of this Prospectus; and
   - A copy of the Douglas-Westwood market report, dated September 26, 2007.

8. KPMG Limited has given and not withdrawn its consent to the inclusion in this Prospectus of its review and audit reports in respect of the Company as set out on pages F-3 and F-17, respectively, of this Prospectus and of the references thereto and to its name, in the form and context in which they appear, and has authorized the inclusion in this Prospectus of its review and audit reports in respect of the Company for the purposes of paragraph 5.5.4(2)(f) of the Prospectus Rules.

9. The Company prepares annual and condensed interim consolidated financial statements in accordance with US GAAP. Copies of the Company's future annual audited consolidated financial statements and unaudited condensed interim consolidated financial statements required to be provided to holders of GDRs will be available for inspection and may be obtained free of charge at the registered office of the Company.

10. There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in the Offering. The Offering is an institutional offering only in which payment for the GDRs by investors will be arranged with the Managers. Holders may inspect the rules governing the issue of the certificates at the offices of the Depositary from the Closing Date.

11. If definitive certificates are issued in exchange for the Master GDRs, the Company will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.

12. The GDRs have no nominal or par value. The Offer Price was determined based on the results of the book building exercise conducted by the Managers.

13. The total fees and expenses of the Company in connection with the Offering are estimated to be ●.

14. The ISIN for the Rule 144A GDRs is US29843U1034, the Common Code for the Rule 144A GDRs is 032497373, the CUSIP number for the Rule 144A GDRs is 249843U103 the LDN SEDOL for the Rule 144A GDR is B289JY9 and the US SEDOL for the Rule 144A GDRs is B289L43.

15. The ISIN for the Regulation S GDR is US29843U2024, the Common Code for the Regulation S GDRs is 032497527, the CUSIP number for the Regulation S GDRs is 29843U202 and the SEDOL for the Regulation S GDR is B289L09.

16. The London Stock Exchange trading symbol for the GDRs is EDCL and the PORTAL identification number is P29843U103.

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Independent Accountants' Review Report

To the Board of Directors of
Eurasia Drilling Company Limited:

We have reviewed the accompanying consolidated balance sheet of Eurasia Drilling Company Limited and its subsidiaries ("the Company") as of June 30, 2007, and the related consolidated statements of income and cash flows for the six-month periods ended June 30, 2007 and 2006. These interim financial statements are the responsibility of the company's management.

We conducted our review 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 generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited

KPMG Limited
Moscow, Russian Federation
August 31, 2007

Eurasia Drilling Company Limited

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

	Note	As of June 30, 2007 (unaudited)	As of December 31, 2006
Assets			
Current assets			
Cash and cash equivalents	4	19,461	29,296
Accounts receivable, net	5	211,564	151,371
Inventories	6	167,386	141,302
Taxes receivable		26,815	29,252
Deferred income tax assets		5,699	7,358
Other current assets		5,303	4,128
Total current assets		**436,228**	**362,707**
Property, plant and equipment	7	341,354	239,632
Long-term accounts receivable		13,050	15,099
Deferred income tax assets		8,528	10,114
Other non-current assets		4,674	1,506
Total assets		**803,834**	**629,058**
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		160,357	140,979
Advances received		9,466	6,054
Short-term debt and current portion of long-term debt	8	108,273	77,557
Taxes payable		34,457	30,511
Total current liabilities		**312,553**	**255,101**
Long-term debt	9	239,148	200,196
Accrued pension liability		6,436	6,311
Long-term VAT payable		1,670	2,588
Deferred income tax liabilities		764	1,235
Other non-current liabilities		—	1,638
Total liabilities		**560,571**	**467,069**
Stockholders' equity	13		
Common stock		50	50
Additional paid-in capital		35,460	35,460
Retained earnings		197,856	119,311
Accumulated other comprehensive income		9,897	7,168
Total stockholders' equity		**243,263**	**161,989**
Total liabilities and stockholders' equity		**803,834**	**629,058**

Martin E. Hansen
Director of Eurasia Drilling Company Limited

August 31, 2007

EURASIA DRILLING COMPANY LIMITED — LIMITED LIABILITY COMPANY — CAYMAN ISLANDS

See accompanying notes to these interim consolidated financial statements and independent accountants' review report.

Eurasia Drilling Company Limited

Interim Consolidated Statements of Income
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	For the six months ended June 30, 2007 (unaudited)	For the six months ended June 30, 2006 (unaudited)
Revenues			
Drilling and related services		661,231	483,121
Other sales and services		12,225	17,810
Total revenues		**673,456**	**500,931**
Cost of services	12	(467,953)	(366,239)
Selling, general and administrative expenses		(37,399)	(27,234)
Taxes other than income taxes		(31,232)	(21,256)
Depreciation		(14,653)	(9,184)
Gain on disposal of property, plant and equipment		690	175
Income from operating activities		**122,909**	**77,193**
Interest expense		(13,994)	(8,731)
Interest income		626	561
Currency transaction gain		403	702
Other expenses		(1,665)	(1,118)
Income before income taxes		**108,279**	**68,607**
Current income taxes		(26,677)	(15,884)
Deferred income taxes		(3,057)	(2,485)
Total income tax expense	3	**(29,734)**	**(18,369)**
Net income		**78,545**	**50,238**
Basic earnings per share of common stock (US dollars)	13	0.63	0.45

See accompanying notes to these interim consolidated financial statements and independent accountants' review report.

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, 2007 (unaudited)	For the six months ended June 30, 2006 (unaudited)
Cash flows from operating activities			
Net income		**78,545**	**50,238**
Adjustments for non-cash items:			
Depreciation		14,653	9,184
Accrued interest expense		1,885	1,380
Deferred income taxes		3,057	2,485
Gain on disposal of property, plant and equipment		(690)	(175)
(Decrease)/increase in allowance for doubtful accounts receivable		(960)	988
Changes in operating assets and liabilities:			
Accounts receivable		(55,630)	(40,835)
Inventories		(23,028)	(20,961)
Taxes receivable		2,990	(75)
Other current assets		(1,082)	(2,562)
Accounts payable and accrued liabilities		12,276	6,897
Advances received		1,604	2,219
Taxes payable		2,344	4,289
Other liabilities		4,121	1,168
All other items—net		(747)	1,494
Net cash provided by operating activities		**39,338**	**15,734**
Cash flows from investing activities			
Purchases of property, plant and equipment		(115,694)	(43,437)
Proceeds from sale of property, plant and equipment		3,865	13,330
Net cash used in investing activities		**(111,829)**	**(30,107)**
Cash flows from financing activities			
Proceeds from issuance of short-term debt		80,958	140,930
Principal repayments of short-term debt		(71,508)	(140,201)
Proceeds from issuance of long-term debt		60,410	30,037
Principal repayments of long-term debt		(2,973)	(7,314)
Repayment of capital lease obligations		(4,231)	(1,326)
Net cash provided by financing activities		**62,656**	**22,126**
Net (decrease)/increase in cash and cash equivalents		(9,835)	7,753
Cash and cash equivalents at beginning of period		29,296	21,772
Cash and cash equivalents at end of period	4	**19,461**	**29,525**
Supplemental disclosures of cash flow information			
Interest paid		12,109	7,351
Income tax paid		23,657	16,475

See accompanying notes to these interim consolidated financial statements and independent accountants' review report.

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 accountants, except for the balance sheet as of December 31, 2006. 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"). These financial statements should be read in conjunction with the Group's December 31, 2006 annual consolidated financial statements. The interim consolidated financial statements have been prepared following the accounting policies applied and disclosed in the December 31, 2006 consolidated financial statements.

The results for the six-month period ended June 30, 2007 are not necessarily indicative of the results expected for the full year.

Functional and reporting currency

The functional currency of the Company and subsidiaries, except for OOO Eurasia Drilling Company, is the US dollar. The functional currency of OOO Eurasia Drilling Company is the Russian ruble because this is the currency of the primary economic environment in which OOO Eurasia Drilling Company operates 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, 2007 and December 31, 2006 was 25.8162 and 26.3311 Russian rubles to one US dollar, respectively.

Note 2. Recent accounting pronouncements

In February 2007, FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities."* This Statement expands the possibility of using fair value measurements and permits enterprises to choose to measure certain financial assets and financial liabilities at fair value. Enterprises shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent period. The Statement is effective in the first quarter 2008. The Group is currently assessing the effect of adoption of SFAS No. 159.

In September 2006, the FASB issued SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)."* This Statement requires an employer that sponsors one or more single-employer defined benefit plans to: (a) Recognize the funded status of a benefit plan in its statement of financial position; (b) Recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost; (c) Measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions); (d) Disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The provisions of this Statement are effective December 31, 2006, except for the requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end, which is effective December 31, 2008. The adoption of the provisions of SFAS No. 158 did not have a material impact on the Group's results of operations, financial position or cash flows.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements,"* which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. This Statement does not require any new fair value measurements but is expected to increase the consistency of those measurements. The Group is required to adopt the provisions of SFAS No. 157 in the first quarter 2008 and does not expect any material impact on its financial statements upon adoption.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." The Group adopted the provisions of FIN 48 in the first quarter 2007. The adoption of the provisions of Interpretation No. 48 did not have a material impact on the Group's results of operations, financial position or cash flows.

In June 2006, the FASB ratified the consensus reached by the EITF on Issue No. 06-3, *"How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)."* The consensus requires disclosure of either the gross or net presentation, and any such taxes reported on a gross basis should be disclosed in the interim and annual financial statements. The Group adopted the provisions of EITF Issue No. 06-3 in 2006. The adoption of the Issue did not have a material impact on the Group's financial statements.

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.

The combined statutory tax rate in the Russian Federation is 24%. Operations in Kazakhstan, Turkmenistan, Cyprus and the Cayman Islands are subject to income tax of 40%, 20%, 10% and 0%, respectively. The majority of the Group's profits were taxed in the Russian Federation and were subject to a statutory tax rate of 24%.

The Group's effective income tax rates for the periods ended June 30, 2007 and 2006 differ from the statutory income tax rate primarily due to incurrence of costs that are either not tax deductible or only deductible to a certain limit.

Note 4. Cash and cash equivalents

Cash and cash equivalents include the following:

	As of June 30, 2007	As of December 31, 2006
Cash held in banks—Russian rubles	16,305	3,524
Cash held in banks—US dollars	3,156	25,772
Total cash and cash equivalents	**19,461**	**29,296**

Note 5. Accounts receivable, net

Accounts receivable include the following:

	As of June 30, 2007	As of December 31, 2006
Trade accounts receivable	193,497	141,293
Advances given	20,451	13,366
	213,948	154,659
Allowance for doubtful accounts	(2,384)	(3,288)
Total accounts receivable, net	**211,564**	**151,371**

Note 6. Inventories

Inventories include the following:

	As of June 30, 2007	As of December 31, 2006
Materials for extraction and drilling	149,202	130,875
Work in progress	21,653	14,202
Petroleum products	3,455	3,003
Oil and gas	170	178
	174,480	148,258
Provision for obsolescence	(7,094)	(6,956)
Total inventories	**167,386**	**141,302**

Note 7. Property, plant and equipment

Property, plant and equipment include the following:

	As of June 30, 2007	As of December 31, 2006
Machinery and equipment	263,679	179,952
Buildings	23,637	23,276
Vehicles	9,803	12,904
	297,119	216,132
Less: accumulated depreciation	(48,422)	(36,166)
Construction in progress	22,395	6,704
Advances given for property, plant and equipment	70,262	52,962
Total property, plant and equipment	**341,354**	**239,632**

Note 8. Short-term debt and current portion of long-term debt

Short-term debt and current portion of long-term debt includes the following:

	As of June 30, 2007	As of December 31, 2006
Short-term debt	57,818	44,433
Current portion of long-term debt (note 9)	41,935	25,012
Short-term capital lease obligations	8,520	8,112
Total short-term debt and current portion of long-term debt	**108,273**	**77,557**

Short-term debt represents the following:

	Currency	Maturity	Stated interest	As of June 30, 2007
AK Sberegatelny Bank of the Russian Federation (OAO)—Zapadno-Uralskiy Bank	Russian rubles	August 15, 2007	7.40%	19,368
AK Sberegatelny Bank of the Russian Federation (OAO)—Zapadno-Uralskiy Bank	Russian rubles	April 18, 2008	7.40%	15,032
ZAO International Moscow Bank	Euro	August 22, 2007	EURIBOR plus 2.50%	16,136
ZAO International Moscow Bank	Russian rubles	July 25, 2007	7.10%	5,152
ZAO International Moscow Bank	Russian rubles	May 10, 2008	7.35%	2,130
Total short-term debt				**57,818**

Note 9. Long-term debt

Long-term debt includes the following:

Lender	Maturity date	As of June 30, 2007	As of December 31, 2006
Debt of the Company			
Loans from stockholders	2011	70,000	60,000
OAO NK LUKOIL	2009	32,581	32,030
Debt of the Company's subsidiaries			
AK Sberegatelny Bank of the Russian Federation (OAO)— Zapadno-Uralskiy Bank	2011	51,756	50,402
ZAO International Moscow Bank	2012	36,024	—
ZAO International Moscow Bank	2009	32,150	16,805
ZAO International Moscow Bank	2008	5,648	5,534
Loans from LUKOIL Group companies			
OAO NK LUKOIL	2018	40,008	44,511
Other companies of the LUKOIL Group	2010-2041	3,639	2,353
Total long-term debt		**271,806**	**211,635**
Current portion of long-term debt (note 8)		(41,935)	(25,012)
Long-term capital lease obligation		9,277	13,573
Total non-current long-term debt		**239,148**	**200,196**

Stockholders

Long-term loans from stockholders represent loans denominated in US dollars, bearing interest at 8.60% and mature on December 31, 2011. These loans were received for the purpose of financing the purchases of property, plant and equipment.

OAO NK LUKOIL

The Company's long-term debt with OAO NK LUKOIL is denominated in US dollars and is payable in installments of USD 11.5 million in December 2007 and 2008 and USD 11.3 million in 2009. This long-term debt bears interest at a rate of 6.00% per annum. The debt represents financing of 50% of the purchase price of OOO Eurasia Drilling Company.

The debt has been recorded on the balance sheet by discounting the initial loan amount of USD 34.3 million over the period it is to be repaid using a market rate of 9.44%, which is an estimated interest rate that would be applicable to borrowings of a similar nature at the time the loan was originated. The difference between the nominal amount of the loan and present value at the date of origination was deducted from the contracted purchase price of OOO Eurasia Drilling Company of USD 68.5 million in allocating the purchase price to assets acquired and liabilities assumed.

LUKOIL Group companies

Long-term debt of subsidiaries, denominated in Russian rubles, represent various borrowings from LUKOIL Group Companies. This long-term debt has been recorded at fair value based on effective interest rates estimated by management to be applicable to the Company at the acquisition date, which on average was 12.66% per annum.

AK Sberegatelny Bank of the Russian Federation (OAO)—Zapadno-Uralskiy Bank

Long-term debt with AK Sberegatelny Bank of the Russian Federation (OAO)—Zapadno-Uralskiy Bank with an outstanding balance of USD 27.7 million is denominated in Russian rubles, bearing interest at 11.30% per annum.

Long-term debt with an outstanding balance of USD 24.1 million is denominated in Russian rubles and bears annual interest on the following basis: for the period up to March 9, 2008—11.00%; for the period from March 10, 2008 to March 9, 2010—10.00% and for the period from March 10, 2010 to March 7, 2011—9.00%.

ZAO International Moscow Bank

Long-term debts with ZAO International Moscow Bank with outstanding balances of USD 32.2 million are denominated in Russian rubles and bear interest at 8.75% per annum, USD 36 million, denominated in Russian rubles, bear interest at 8.95% and USD 5.6 million, denominated in Euro, bear interest at EURIBOR plus 2.55%.

Long-term debt is secured by property, plant and equipment with a carrying amount of USD 36.8 million.

Maturities of long-term debts outstanding at June 30, 2007 are as follows:

July 1, 2007 to June 30, 2008	July 1, 2008 to December 31, 2008	2009	2010	2011	2012 and thereafter
41,935	34,880	69,203	35,396	86,113	4,279

Note 10. Pension benefits

Components of net periodic benefit cost were as follows:

	For the six months ended June 30, 2007	For the six months ended June 30, 2006
Service cost	341	328
Interest cost	438	420
Less expected return on plan assets	(255)	(245)
Curtailment loss	4	4
Total net periodic benefit cost	**528**	**507**

Note 11. Fair value of financial instruments

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

Note 12. Cost of services

Costs of services includes the following:

	For the six months ended June 30, 2007	For the six months ended June 30, 2006
Services of subcontractors	157,733	152,430
Materials	152,594	107,784
Wages and salaries	103,549	60,834
Fuel and energy	27,191	26,196
Transportation of employees to drilling fields	10,947	11,157
Leasing and rent	5,173	3,882
Other	10,766	3,956
Total cost of services	**467,953**	**366,239**

Note 13. Stockholders' equity

Common stock

The Company's authorized, issued and outstanding common stock consisted of 50,000 shares with a par value of USD 1 per share as of December 31, 2006. Subsequent to June 30, 2007 the Company amended its capital structure to increase outstanding stock to 125 million shares with a par value of USD 0.01 per share (refer note 19).

In accordance with the stock purchase agreements signed between the Group and its current stockholders, current stockholders shall be liable to pay additional cash calls on the stock at any time up to six years from the date of the stock purchase agreements to fund the Group's obligations with respect to the purchase of OOO Eurasia Drilling Company.

Treasury stock

As of June 30, 2006 the Company had 5,000 shares of common stock held as treasury stock recorded at cost. In July 2006 the Company issued this treasury stock to existing stockholders at cost.

Dividends and dividends limitations

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

Retained earnings of the Company's Russian subsidiaries were RUR 7.8 billion and RUR 5.8 billion, respectively as of June 30, 2007 and December 31, 2006, pursuant to the statutory financial statements, which at the US dollar exchange rates as of June 30, 2007 and December 31, 2006 amount to USD 304 million and USD 220 million, respectively.

Earnings per share

The calculation of earnings per share was as follows:

	For the six months ended June 30, 2007	For the six months ended June 30, 2006
Net income available for common stockholders	78,545	50,238
Weighted average number of outstanding shares	125,000,000	112,500,000
Basic earnings per share of common stock (US dollars)	0.63	0.45

Weighted average number of outstanding shares was calculated based on the amended capital structure (refer note 19).

There is no potential dilution in earnings available to common stockholders and as such diluted earnings per share are not disclosed.

Note 14. Comprehensive income

	For the six months ended June 30, 2007	For the six months ended June 30, 2006
Net income	78,545	50,238
Other comprehensive income:		
Foreign currency translation gain	2,729	5,862
Comprehensive income	**81,274**	**56,100**

Note 15. Commitments and contingencies

Commitments

Commitments for provision of drilling services

Under the terms of sale and purchase agreement between Eurasia Drilling Company Limited and OAO NK LUKOIL, the Group has committed to rendering future drilling services to LUKOIL Group Companies.

Under this agreement the Group will provide drilling services to the LUKOIL Group and precise terms of rendering of such services will be set by signing annual well construction contracts with the LUKOIL Group starting from January 1, 2005 through December 31, 2009. The estimated level of drilling to be performed by the Group during this five-year period was agreed at a minimum of 6.5 million meters. The estimated revenues for the developmental drilling services set out in the contract at the date of acquisition were RUR 73.19 billion (USD 2.6 billion). The prices for drilling services under these contracts are reviewed on an annual basis based on market prices.

Under the terms of the contract, drilling services of USD 387 million, USD 697 million and USD 702 million will be provided by the Group during the remaining 6 months of 2007 and during 2008 and 2009, respectively.

In the event of any agreed change in the scope of work or any failure to provide or fulfill the agreed scope of work by either party, Eurasia Drilling Company Limited or OAO NK LUKOIL, during the years 2005 to 2009, as well as in the event of any consequences arising out of such party's failure to fulfill its obligations, the defaulting party shall compensate to the other party any reasonable losses. Such compensation may be equal to the share of the reduced revenues, in the form of the provision or fulfillment of other types of contracted work, as well as any penalties applicable under the contract.

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.

Effective June 1, 2007 the Group entered into a significantly broader insurance program than was previously in place. This program covers the replacement cost of the majority of its rigs and other equipment and includes emergency recovery expenses and the cost of re-drilling. Management believes that under this new insurance program the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Litigation

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

Environmental obligations

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

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

Taxation

The taxation system in the Russian Federation, Kazakhstan and Turkmenistan is relatively new and is 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 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.

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 16. Related party transactions

The Group purchased well construction and related services from an affiliated company, PetroAlliance Services Company Limited ("PAS"), of USD 13.8 million and USD 7 million during the 6 months ended June 30, 2007 and 2006, respectively. Amounts payable to PAS were USD 5.8 million and USD 5.1 million as of June 30, 2007 and December 31, 2006, respectively. A stockholder of the Company is the chairman of the Board of Directors of PAS.

Long-term loans from stockholders were USD 70 million and USD 60 million as of June 30, 2007 and December 31, 2006, respectively (refer note 9). Interest expense of USD 2.8 million and nil was recognized and paid on these loans during the 6 months ended June 30, 2007 and 2006, respectively.

Capital lease obligations for property, plant and equipment under capital lease as of June 30, 2007 from OAO LK Leasing, an associated company and a company in which a substantial stockholder has a controlling interest, were USD 17.5 million. During the six months period ended June 30, 2007 the Group acquired USD 15.9 million of additional drilling equipment from this entity. Included in property, plant and equipment as of June 30, 2007 is USD 3.8 million of advances to this entity for the purchase of drilling equipment.

Note 17. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended June 30, 2007 and 2006, in accordance with SFAS No. 131, *"Disclosures about Segments of an Enterprise and Related Information"*.

The Group has two operating segments: on-shore and off-shore drilling services. 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, assess the performance of these operating segments. The operations of the off-shore drilling services segment commenced on December 20, 2006 upon the acquisition of LUKOIL Shelf Limited and Astraorient Limited (formerly LUKOIL Overseas Orient Limited).

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

Segment detailed information is summarized as follows:

For the six month period ended June 30, 2007

	On-shore drilling services (Russian Federation)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	658,040	15,416	673,456
Net income	76,694	1,851	78,545
Total assets	754,658	49,176	803,834

For the six month period ended June 30, 2006

	On-shore drilling services (Russian Federation)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	500,931	—	500,931
Net income	50,238	—	50,238
Total assets	499,691	—	499,691

Note 18. 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.

	2007	2006
Sales for the six months ended June 30	550,824	447,002
Accounts receivable as of June 30, 2007 and December 31, 2006	141,354	116,027

Note 19. Subsequent events

The Stockholders declared dividends of USD 200 per common share on July 16, 2007 totaling USD 10 million.

On July 31, 2007 the Stockholders declared a 2,500-to-1 stock split. In connection with the stock split, the Stockholders have approved an amendment to the articles of association to increase the number of authorized common stock from 50,000 to 125 million and to decrease the par value of each share of outstanding common stock from USD 1 per share to USD 0.01 per share. As a result, the Company will transfer USD 1.2 million from additional paid-in capital to common stock, representing the par value of additional shares issued to the Stockholders. Earnings per share amounts shown in these interim consolidated financial statements for all periods reflect this stock split.

On July 31, 2007 the Stockholders approved another amendment to the articles of association to increase the number of authorized common shares from 125 million to 250 million.

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Independent Auditors' Report

To the Board of Directors of
Eurasia Drilling Company Limited:

We have audited the accompanying consolidated balance sheets of Eurasia Drilling Company Limited ("the Company") and its subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited

KPMG Limited
June 29, 2007,
except as to Note 22,
which is as of July 31, 2007.

Eurasia Drilling Company Limited

Consolidated Balance Sheets
As of December 31, 2006 and 2005
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	2006	2005
Assets			
Current assets			
Cash and cash equivalents	3	29,296	21,772
Accounts receivable, net	4	151,371	89,727
Inventories	5	141,302	91,370
Taxes receivable	11	29,252	23,395
Deferred income tax assets	11	7,358	3,579
Other current assets		4,128	2,001
Total current assets		**362,707**	**231,844**
Property, plant and equipment	6	239,632	102,634
Long-term accounts receivable	7	15,099	16,048
Deferred income tax assets	11	10,114	12,677
Other non-current assets		1,506	1,500
Total assets		**629,058**	**364,703**
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		140,979	84,519
Advances received		6,054	35,020
Short-term debt and current portion of long-term debt	9	77,557	52,638
Taxes payable	11	30,511	24,623
Deferred income tax liabilities	11	—	279
Dividends payable		—	1,350
Other current liabilities		—	897
Total current liabilities		**255,101**	**199,326**
Long-term debt	10	200,196	92,463
Accrued pension liability	12	6,311	5,234
Long-term VAT payable		2,588	2,094
Deferred income tax liabilities	11	1,235	1,900
Other non-current liabilities		1,638	—
Total liabilities		**467,069**	**301,017**
Stockholders' equity	15		
Common stock		50	50
Treasury stock, at cost		—	(500)
Additional paid-in capital		35,460	35,460
Retained earnings		119,311	31,546
Accumulated other comprehensive income/(expense)		7,168	(2,870)
Total stockholders' equity		**161,989**	**63,686**
Total liabilities and stockholders' equity		**629,058**	**364,703**

Martin E. Hansen
Director of Eurasia Drilling Company Limited

EURASIA DRILLING COMPANY LIMITED
LIABILITY COMPANY
CAYMAN ISLANDS

The accompanying notes are an integral part of these consolidated financial statements

Eurasia Drilling Company Limited

Consolidated Statements of Income
For the years ended December 31, 2006 and 2005
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	2006	2005
Revenues			
Drilling and related services		1,048,209	669,527
Other sales and services		39,363	7,120
Total revenues		**1,087,572**	**676,647**
Cost of services	14	(806,881)	(526,072)
Selling, general and administrative expenses		(68,243)	(40,666)
Taxes other than income taxes		(41,250)	(31,086)
Depreciation		(23,722)	(14,654)
Gain on disposal of property, plant and equipment		275	6,596
Income from operating activities		**147,751**	**70,765**
Interest expense		(19,392)	(15,535)
Interest income		1,343	737
Currency transaction gain/(loss)		870	(199)
Other expenses		(6,350)	(4,875)
Income before income taxes		**124,222**	**50,893**
Income tax expense	11	(33,457)	(17,041)
Net income		**90,765**	**33,852**
Basic earnings per share of common stock (US dollars)	15	0.76	0.27

The accompanying notes are an integral part of these consolidated financial statements

Eurasia Drilling Company Limited

Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income
For the years ended December 31, 2006 and 2005
(All amounts in thousands of US dollars, unless otherwise noted)

	Common stock	Treasury stock	Additional paid-in capital	(Accumulated loss)/ retained earnings	Accumulated other comprehensive income/(expense)	Total Stock-holders' equity
Balance as of January 1, 2005	**50**	**—**	**35,460**	**(956)**	**—**	**34,554**
Comprehensive income:						
Net income	—	—	—	33,852	—	**33,852**
Other comprehensive expense:						
Foreign currency translation loss	—	—	—	—	(2,870)	**(2,870)**
Comprehensive income						**30,982**
Purchase of treasury stock	—	(500)	—	—	—	**(500)**
Dividends declared	—	—	—	(1,350)	—	**(1,350)**
Balance as of December 31, 2005	**50**	**(500)**	**35,460**	**31,546**	**(2,870)**	**63,686**
Comprehensive income:						
Net income	—	—	—	90,765	—	**90,765**
Other comprehensive income:						
Foreign currency translation gain	—	—	—	—	10,381	**10,381**
Comprehensive income						**101,146**
Sale of treasury stock	—	500	—	—	—	**500**
Effect of initial adoption of SFAS No. 158	—	—	—	—	(343)	**(343)**
Dividends declared	—	—	—	(3,000)	—	**(3,000)**
Balance as of December 31, 2006	**50**	**—**	**35,460**	**119,311**	**7,168**	**161,989**

The accompanying notes are an integral part of these consolidated financial statements

Eurasia Drilling Company Limited

Consolidated Statements of Cash Flows
For the years ended December 31, 2006 and 2005
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	2006	2005
Cash flows from operating activities			
Net income		**90,765**	**33,852**
Adjustments for non-cash items:			
Depreciation		23,722	14,654
Accrued interest expense		2,680	6,482
Deferred income taxes		(265)	5,005
Gain on disposal of property, plant and equipment		(275)	(6,596)
Increase/(decrease) in allowance for doubtful accounts receivable		968	(960)
All other items—net		(434)	1,609
Changes in operating assets and liabilities:			
Accounts receivable		(44,862)	(31,918)
Inventories		(32,201)	(28,325)
Taxes receivable		(2,793)	(7,535)
Other current assets		(1,880)	620
Accounts payable and accrued liabilities		41,239	19,791
Advances received		(29,627)	11,736
Taxes payable		2,158	3,264
Other current liabilities		323	(2,838)
Net cash provided by operating activities		**49,518**	**18,841**
Cash flows from investing activities			
Purchases of property, plant and equipment		(96,102)	(37,810)
Proceeds from sale of property, plant and equipment		1,827	2,530
Acquisition of subsidiary, net of cash acquired		(37,514)	—
Proceeds from repayment of loans granted to stockholders		—	16,089
Purchase of share in associate		—	(998)
Net cash used in investing activities		**(131,789)**	**(20,189)**
Cash flows from financing activities			
Proceeds from issuance of short-term debt		285,995	246,135
Principal repayments of short-term debt		(289,141)	(243,175)
Proceeds from issuance of long-term debt		109,429	19,460
Principal repayments of long-term debt		(6,961)	—
Repayment of capital lease obligations		(5,677)	(3,624)
Dividends paid		(4,350)	—
Proceeds from sale of treasury stock		500	—
Purchase of treasury stock		—	(500)
Net cash provided by financing activities		**89,795**	**18,296**
Net increase in cash and cash equivalents		**7,524**	**16,948**
Cash and cash equivalents at beginning of period		21,772	4,824
Cash and cash equivalents at end of period	**3**	**29,296**	**21,772**
Supplemental disclosures of cash flow information			
Interest paid		16,712	9,053
Income tax paid		31,704	13,417

The accompanying notes are an integral part of these consolidated financial statements

Note 1. Organization and environment

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

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

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

OOO LUKOIL Burenie, now OOO Eurasia Drilling Company, was established in accordance with the decision of the Board of Directors of OAO NK LUKOIL as of February 13, 1995 and registered by the resolution of the Head of Kogalym Administration No 216 as of May 17, 1995. It was formed from the drilling subdivisions of OAO NK LUKOIL—Kogalymneftegaz, OAO LUKOIL—Langepasneftegas and OAO NK LUKOIL—Uraineneftegas.

As of December 31, 2005 OOO Eurasia Drilling Company had the following subsidiaries which were merged on March 10, 2006: OOO Eurasia Drilling Company Perm and OOO Nizhnevolzhskburneft.

As of December 31, 2006 OOO Eurasia Drilling Company had operating branches in Kogalym, Perm, Usinsk, Naryan-Mar and Zhirnovsk (Volgograd Region) of the Russian Federation.

In December 2006, Eurasia Driling Company Group acquired 100% interests in LUKOIL Shelf Limited and LUKOIL Overseas Orient who provide off-shore drilling services in the Caspian Sea to various oil and gas companies in the Russian Federation, Kazakhstan and Turkmenistan (refer to Note 16).

The majority of the Group's revenues are currently derived from services provided to OAO NK LUKOIL and its affiliated entities (the "LUKOIL Group") and as such, OOO Eurasia Drilling Company is economically dependent upon its contractual agreements with the LUKOIL Group (refer to Note 17).

Business and economic environment

The Russian Federation, Kazakhstan and Turkmenistan have been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in these countries involve risks that typically do not exist in other markets.

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

Basis of preparation

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

Note 2. Summary of significant accounting policies

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

Principles of consolidation

These consolidated financial statements include the financial position and results of the Company and controlled subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest,

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

Use of estimates

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

Acquisitions

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

Functional and reporting currency

The functional currency of the Company and subsidiaries, except for OOO Eurasia Drilling Company, is the US dollar. The functional currency of OOO Eurasia Drilling Company is the Russian ruble because this is the currency of the primary economic environment in which OOO Eurasia Drilling Company operates and in which cash is generated and expended. The Group's reporting currency is the US dollar.

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

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

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

The closing exchange rate as of December 31, 2006 and 2005 was 26.3311 and 28.7825 Russian rubles to one US dollar, respectively.

The Russian ruble is not a readily convertible currency outside the Russian Federation and, accordingly, any conversion of Russian ruble amounts to US dollars should not be construed as a representation that Russian ruble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate disclosed, or at any other exchange rate.

Cash and cash equivalents

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

Accounts receivable

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

Inventories

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

Property, plant and equipment

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

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

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

Impairment of long-lived assets

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

Leased assets

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

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

Deferred income taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purpose of consolidated financial statements and their respective tax bases and operating loss and tax credit carry forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

Interest-bearing borrowings

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

Pension benefits

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

Environmental expenditures

Group companies accrue for losses associated with environmental remediation obligations, not within the scope of SFAS No. 143, *"Accounting for asset retirement obligations"*, when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change.

Revenue recognition

Drilling and related services

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

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

The revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the Group.

Other sales and services

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

All sales are shown net of VAT.

Treasury stock

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

Earnings per share

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

Commitments and contingencies

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

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

Recent accounting pronouncements

In February 2007, FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities."* This Statement expands the possibility of using fair value measurements and permits enterprises to choose to measure certain financial assets and financial liabilities at fair value. Enterprises shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent period. The Statement is effective in the first quarter 2008. The Group is currently assessing the effect of adoption of SFAS No. 159.

In September 2006, the FASB issued SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)."* This Statement requires an employer that sponsors one or more single-employer defined benefit plans to: (a) Recognize the funded status of a benefit plan in its statement of financial position; (b) Recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost; (c) Measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions); (d) Disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The provisions of this Statement are effective December 31, 2006, except for the requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end, which is effective December 31, 2008. The adoption of the provisions of SFAS No. 158 did not have a material impact on the Group's results of operations, financial position or cash flows (refer to Note 12 "Pension benefits").

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements,"* which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. This Statement does not require any new fair value measurements but is expected to increase the consistency of those measurements. The Group is required to adopt the provisions of SFAS No. 157 in the first quarter 2008 and does not expect any material impact on its financial statements upon adoption.

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109"* (FIN 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *"Accounting for Income Taxes."* The Group is required to adopt the provisions of FIN 48 in the first quarter 2007 and is currently assessing the effect of adoption.

In June 2006, the FASB ratified the consensus reached by the EITF on Issue No. 06-3, "*How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation).*" The consensus requires disclosure of either the gross or net presentation, and any such taxes reported on a gross basis should be disclosed in the interim and annual financial statements. The Group adopted the provisions of EITF Issue No. 06-3 in 2006. The adoption of the Issue did not have a material impact on the Group's financial statements.

In May 2007, the FASB issued Staff Position No. FIN 48-1, "*Definition of Settlement in FASB Interpretation No 48*". This Staff' Position amends FIN 48 and provide guidances on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefit. The Group will adopt the provisions of Staff Position No. FIN 48-1 from the date of adoption the provisions of FIN 48.

Note 3. Cash and cash equivalents

Cash and cash equivalents include the following:

	As of December 31, 2006	As of December 31, 2005
Cash held in banks—Russian rubles	3,524	20,939
Cash held in banks—US dollars	25,772	730
Other	—	103
Total cash and cash equivalents	**29,296**	**21,772**

Note 4. Accounts receivable, net

Accounts receivable include the following:

	As of December 31, 2006	As of December 31, 2005
Trade accounts receivable	141,293	65,792
Advances given	13,366	26,029
	154,659	91,821
Allowance for doubtful accounts	(3,288)	(2,094)
Total accounts receivable, net	**151,371**	**89,727**

Note 5. Inventories

Inventories include the following:

	As of December 31, 2006	As of December 31, 2005
Materials for extraction and drilling	130,875	82,405
Work in progress	14,202	12,043
Petroleum products	3,003	1,936
Oil and gas	178	270
Goods for resale	—	495
	148,258	97,149
Provision for obsolescence	(6,956)	(5,779)
Total inventories	**141,302**	**91,370**

Note 6. Property, plant and equipment

Property, plant and equipment include the following:

	As of December 31, 2006	As of December 31, 2005
Machinery and equipment	179,952	69,386
Buildings	23,276	22,367
Vehicles	12,904	7,133
	216,132	98,886
Less: accumulated depreciation	(36,166)	(13,195)
Construction in progress	6,704	16,943
Advances given for property, plant and equipment	52,962	—
Total property, plant and equipment	**239,632**	**102,634**

Note 7. Long-term accounts receivable

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

	Stated interest rates	As of December 31, 2006	As of December 31, 2005
Long-term accounts receivables denominated in US dollars	6.00%	11,696	11,766
Long-term accounts receivables denominated in Russian rubles	6.00%	3,403	4,282
Total long-term accounts receivable		**15,099**	**16,048**

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

As these interest rates were below market rates at the date of origination these long-term accounts receivable have been recorded on the balance sheet by discounting the initial amount over the period it is to be repaid using market interest rates of 12.66% and 9.00% for Russian rubles and US dollar loans, respectively, estimated by management to be the rate applicable to the Group for borrowings of a similar nature.

Note 8. Obligations under capital leases

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

Property, plant and equipment includes USD 26.9 million in relation to assets under capital lease as of December 31, 2006 (2005: USD 2.3 million).

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

	As of December 31, 2006	As of December 31, 2005
At cost	30,003	4,123
Less: accumulated depreciation	(3,105)	(1,805)
Net property, plant and equipment	**26,898**	**2,318**

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

	As of December 31, 2006
2007	10,025
2008	9,121
2009	4,954
2010	652
2011-2018	3
Total minimum lease payments	**24,755**
Less: amount representing interest	(3,070)
Present value of minimum lease payments	21,685
Less: current portion (note 9)	(8,112)
Long-term obligations under capital leases (note 10)	**13,573**

Note 9. Short-term debt and current portion of long-term debt

Short-term debt and current portion of long-term debt includes the following:

	As of December 31, 2006	As of December 31, 2005
Short-term debt	44,433	38,622
Current portion of long-term debt (note 10)	25,012	13,005
Short-term capital lease obligations (note 8)	8,112	1,011
Total short-term debt and current portion of long-term debt	**77,557**	**52,638**

Short-term debt represents the following:

	Currency	Maturity	Stated interest	As of December 31, 2006
OAO AKB Sberegatelny Bank	Russian rubles	August 15, 2007	7.40%	17,221
ZAO International Moscow Bank	Euro	August 22, 2007	EURIBOR plus 2.50%	15,812
ZAO International Moscow Bank	Russian rubles	July 25, 2007	7.10%	11,400
Total short-term debt				**44,433**

Note 10. Long-term debt

Long-term debt includes the following:

Lender	Maturity date	As of December 31, 2006	As of December 31, 2005
Debt of the Company			
Loans from stockholders	2011	60,000	—
OAO NK LUKOIL	2009	32,030	30,965
Debt of the Company's subsidiaries			
AK Sberegatelny Bank of the Russian Federation (OAO)—Zapadno-Uralskiy Bank	2010	50,402	19,124
ZAO International Moscow Bank	2009	16,805	—
ZAO International Moscow Bank	2008	5,534	—
Loans from LUKOIL Group companies			
OAO NK LUKOIL	2018	44,511	51,089
OOO LUKOIL-Perm	2041	1,137	1,516
OAO Komineft	2008	633	1,438
OAO Tebukneft	2014	447	597
OAO Uhtaneft	2015	122	166
OAO LUKOIL-Komi	2010	14	15
Total long-term debt		**211,635**	**104,910**
Current portion of long-term debt (note 9)		(25,012)	(13,005)
Long-term capital lease obligation (note 8)		13,573	558
Total non-current long-term debt		**200,196**	**92,463**

Stockholders

Long-term loans from stockholders represent loans denominated in US dollars, bearing interest at 8.60% and mature on December 31, 2011. These loans were received for the purpose of financing the purchases of property, plant and equipment.

OAO NK LUKOIL

The Company's long-term debt with OAO NK LUKOIL is denominated in US dollars and is payable in installments of USD 11.5 million in 2007 and 2008 and USD 11.3 million in 2009. This long-term debt bears interest at a rate of 6.00% per annum. The debt represents financing of 50% of the purchase price of OOO Eurasia Drilling Company.

The debt has been recorded on the balance sheet by discounting the initial loan amount of USD 34.3 million over the period it is to be repaid using a market rate of 9.44%, which is an estimated interest rate that would be applicable to borrowings of a similar nature at the time the loan was originated. The difference between the nominal amount of the loan and present value at the date of origination was deducted from the contracted purchase price of OOO Eurasia Drilling Company of USD 68.5 million in allocating the purchase price to assets acquired and liabilities assumed.

Debt of the Company's subsidiaries

LUKOIL Group companies

Long-term debt of subsidiaries, denominated in Russian rubles, represent various borrowings from LUKOIL Group Companies. This long-term debt has been recorded at fair value based on effective interest rates estimated by management to be applicable to the Company at the acquisition date, which on average was 12.66% per annum.

AK Sberegatelny Bank of the Russian Federation (OAO)—Zapadno-Uralskiy Bank

Long-term debts with AK Sberegatelny Bank of the Russian Federation (OAO)—Zapadno-Uralskiy Bank with outstanding balances of USD 23.3 million and USD 27.1 million are denominated in Russian rubles, bearing interest at 11.00% and 11.30% per annum, respectively.

The interest rate of 11.00% on the long-term debt with an outstanding balance of USD 23.3 million is for the period until March 9, 2008. From March 9, 2008 to March 9, 2010 a rate of 10.00% will apply and from March 9, 2010 to March 7, 2011 a rate of 9.00% will apply.

ZAO International Moscow Bank

Long-term debts with ZAO International Moscow Bank with outstanding balances of USD 16.8 million are denominated in Russian rubles and bear interest at 8.75% per annum and USD 5.5 million denominated in Euro, bear interest at EURIBOR plus 2.55%.

The Company also has an unused unsecured credit facility with ZAO International Moscow Bank with a limit of USD 8.4 million expiring on January 26, 2009, bearing interest at LIBOR plus 1.55%.

Long-term debt is secured by property, plant and equipment with a carrying amount of USD 39.3 million.

Annual maturities of long-term debts outstanding at December 31, 2006 are as follows:

2007	2008	2009	2010	2011	2012 and thereafter
25,012	42,208	52,937	22,573	63,990	4,915

Note 11. Taxes

Income taxes

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

The combined statutory tax rate in the Russian Federation is 24%.

Tax losses of a Group company in the Russian Federation may be used fully or partially to offset taxable profits in the same company in any of the ten years following the year of loss, subject to the restriction that no more than 50% of the taxable profit in 2006 can be reduced by loss relief. Starting from January 1, 2007 this restriction will no longer apply.

Operations in Kazakhstan, Turkmenistan, Cyprus and the Cayman Islands are subject to income tax of 40%, 20%, 10% and 0%, respectively. All earnings in 2006 and 2005 were taxed in the Russian Federation.

	Year ended December 31, 2006	Year ended December 31, 2005
Current income tax expense	33,722	12,036
Deferred income tax (benefit)/expense	(265)	5,005
Total income tax expense	**33,457**	**17,041**

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

	As of December 31, 2006	As of December 31, 2005
Deferred income tax assets—current	7,358	3,579
Deferred income tax assets—non-current	10,114	12,677
Deferred income tax liabilities—current	—	(279)
Deferred income tax liabilities—non-current	(1,235)	(1,900)
Net deferred income tax asset	**16,237**	**14,077**

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

	As of December 31, 2006	As of December 31, 2005
Property, plant and equipment	8,505	9,831
Accounts payable and accrued liabilities	6,834	3,207
Long-term accounts receivable	1,953	1,590
Inventories	1,691	—
Accrued pension liability	1,515	1,256
Accounts receivable	24	242
Short-term debt and current portion of long-term debt	—	130
Deferred income tax assets	**20,522**	**16,256**
Long-term debt	(1,769)	(1,893)
Property, plant and equipment	(1,235)	—
Other current liabilities	(1,089)	—
Inventories	(102)	(279)
Investments	(90)	(7)
Deferred income tax liabilities	**(4,285)**	**(2,179)**
Net deferred income tax asset	**16,237**	**14,077**

As a result of business combinations, during 2006 the Group has recognized a net deferred tax liability of USD 0.5 million.

Based upon the level of historical taxable income and expectations for future taxable income over future periods, in which the deferred income tax assets are deductible, management believes it is more likely than not the Group will realize the benefits of these deductible temporary differences as of December 31, 2006.

The Company has not recognized deferred income taxes on USD 220.4 million of undistributed earnings of its Russian subsidiaries, since such earnings are considered to be reinvested indefinitely. If the earnings were distributed in the form of dividends, the Company would be subject to foreign withholding taxes. The amount of unrecognized deferred income tax liability was USD 11 million.

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

	Year ended December 31, 2006	Year ended December 31, 2005
Income before income taxes	124,222	50,893
Notional income tax at Russian statutory rate	29,813	12,214
Increase in income tax due to non-deductible items, net	3,644	4,827
Total income tax expense	**33,457**	**17,041**

Taxes receivable include the following:

	As of December 31, 2006	As of December 31, 2005
VAT recoverable	16,614	11,990
Prepaid profit taxes	9,422	5,296
Prepaid VAT	1,856	5,552
Other taxes	1,360	557
Total taxes receivable	**29,252**	**23,395**

Taxes payable include the following:

	As of December 31, 2006	As of December 31, 2005
Profit taxes payable	7,380	—
Social taxes and contributions	8,048	6,534
VAT	8,882	10,813
Property tax	2,004	4,617
Personal income tax	3,157	1,820
Road tax	284	367
Other taxes	756	472
Total taxes payable	**30,511**	**24,623**

Note 12. Pension benefits

The Company sponsors a post employment and post retirement benefits program. The primary component of the post employment and postretirement benefits program is a defined benefit pension plan that covers the majority of the Group's employees. This plan is administered by a non-state pension fund, LUKOIL-GARANT, and provides pension benefits primarily based on years of service and final remuneration levels. The Company also provides several long-term employee benefits such as death-in-service benefit and lump-sum payments upon retirement of a defined benefit nature and other defined benefits to certain old age and disabled pensioners who have not vested any pensions under the pension plan.

These post employment and post retirement benefits program was inherited by the Group from the LUKOIL Group as of the date of acquisition.

The Company's pension plan primarily consists of a defined benefit plan enabling employees to contribute a portion of their salary to the plan and at retirement to receive a lump sum amount from the Company equal to all past contributions made by the employee up to 7% of their annual salary. Employees also have the right to receive upon retirement the benefits accumulated under the previous pension plan that was replaced in December 2003, when OOO Eurasia Drilling Company was a subsidiary of the LUKOIL Group. These benefits have been fixed and included in the benefit obligation as of December 31, 2006 and 2005. The amount was determined primarily based on a formula including past pensionable service and relative salaries as of December 31, 2003.

On December 31, 2006, the Group adopted the provisions of SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)."* This Statement requires employers to recognize the funded status of all postretirement defined benefit plans in the statement of financial position with corresponding adjustments to accumulated other comprehensive income. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial gains and unrecognized prior service costs, both of which were previously netted against the plan's funded status in the statement of financial position. These amounts will be subsequently recognized as net periodic benefit cost. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of other comprehensive income. These amounts will be subsequently recognized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of SFAS No. 158.

The Company uses December 31 as the measurement date for its post employment and post retirement benefits program. An independent actuary has assessed the benefit obligations as of December 31, 2006 and 2005.

LUKOIL-GARANT is a multiemployer pension plan in which OOO Eurasia Drilling Company employees participate. The information that follows represents the obligations and assets attributable to OOO Eurasia Drilling Company employees participating in this pension plan.

The following table provides information about the benefit obligations, plan assets and actuarial assumptions used as of December 31, 2006 and 2005. The benefit obligations below represent the projected benefit obligation of the pension plan.

	2006	2005
Benefit obligations		
Benefit obligations as of January 1	11,660	10,757
Effect of exchange rate changes	1,081	(387)
Service cost	655	279
Interest cost	840	930
Actuarial (gain)/loss	(237)	2,329
Benefits paid	(701)	(478)
Curtailment gain	(779)	(1,770)
Benefit obligations as of December 31	**12,519**	**11,660**
Plan assets		
Fair value of plan assets as of January 1	5,995	5,573
Effect of exchange rate changes	547	(200)
Return on plan assets	302	289
Interest income on individual pension accounts	267	296
Other changes in fair value of individual pension accounts	(849)	302
Employer contributions	879	415
Benefits paid	(933)	(680)
Fair value of plan assets as of December 31	**6,208**	**5,995**
Funded status	(6,311)	(5,665)
Unrecognised actuarial loss	—	431
Net amount recognized	**(6,311)**	**(5,234)**
Amounts recognized in the consolidated balance sheet as of December 31, 2006, under SFAS No. 158		
Accrued pension liability	(6,311)	—
Amounts recognized in the consolidated balance sheet as of December 31, 2005, under prior accounting rules		
Accrued pension liability	—	(5,234)
Assumptions:		
Discount rate	6.60%	7.00%
Expected return on plan assets	9.34%	8.81%

The effect of adoption of SFAS No. 158 on the financial statements is described below:

	Before application of SFAS No. 158	Effect of adopting SFAS No. 158	After application of SFAS No. 158
Other long-term liabilities	(5,860)	(451)	(6,311)
Accumulated other comprehensive loss	—	343	343
Deferred tax asset	—	108	108

Included in accumulated other comprehensive loss as of December 31, 2006, are the following before-tax amounts that have not yet been recognized in net periodic benefit cost:

Unrecognized actuarial loss	451

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

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

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

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

Type of assets	As of December 31, 2006	As of December 31, 2005
Promissory notes of Russian issuers	24%	30%
Russian corporate bonds	23%	20%
Equity securities of Russian issuers	21%	10%
Bank deposits	9%	16%
Shares of OAO NK LUKOIL	8%	5%
Shares in investment funds	8%	5%
Russian governmental bonds	2%	9%
Russian municipal bonds	1%	3%
Other assets	4%	2%
	100%	100%

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

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

The following table details the targeted investment mix for 2007 and the maximum limits on investment type.

Type of investment	2007 Target Allocation	Maximum Allocation Allowed
Russian corporate bonds	31%	50%
Russian municipal bonds	31%	50%
Equity securities of Russian issuers	28%	50%
Promissory notes of Russian issuers	5%	50%
Other, including bank deposits	5%	50%
	100%	

Components of net periodic benefit cost were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Service cost	655	279
Interest cost	840	930
Less expected return on plan assets	(490)	(583)
Curtailment loss	8	24
Total net periodic benefit cost	**1,013**	**650**

Total employer contributions for 2007 are expected to be approximately USD 1.2 million.

Accumulated benefit obligations were USD 11.4 million and USD 10.4 million as of December 31, 2006 and December 31, 2005, respectively.

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

	2007	2008	2009	2010	2011	5-year period 2007-2011	5-year period 2012-2016
Pension benefits	1,160	454	693	822	717	3,846	3,501
Lump sum payments upon retirement, death and disability	833	515	546	572	565	3,031	2,999
Total expected benefits to be paid	**1,993**	**969**	**1,239**	**1,394**	**1,282**	**6,877**	**6,500**

Note 13. Fair value of financial instruments

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

Note 14. Cost of services

Cost of services includes the following:

	Year ended December 31, 2006	Year ended December 31, 2005
Services of subcontractors	318,766	172,206
Materials	243,553	141,171
Wages and salaries	151,743	129,725
Fuel and energy	47,467	38,927
Transportation of employees to drilling fields	23,085	22,602
Leasing and rent	8,504	12,492
Other	13,763	8,949
Total cost of services	**806,881**	**526,072**

Note 15. Stockholder's equity

Common stock

	As of December 31, 2006	As of December 31, 2005
	(shares)	(shares)
Authorized and issued common stock, par value of 1 US dollar each	50,000	50,000
Treasury stock	—	(5,000)
Outstanding common stock	**50,000**	**45,000**

In accordance with the stock purchase agreements signed between the Group and its current stockholders, stockholders shall be liable to pay additional cash calls on the stock at any time up to six years from the date of the stock purchase agreements to fund the Group's obligations with respect to the purchase of OOO Eurasia Drilling Company.

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 the these subsidiaries prepared in accordance with the laws of the Russian Federation and denominated in Russian rubles. Under Russian Law, dividends are limited to the retained earnings as set out in the statutory financial statements of the Company's Russian subsidiaries. These laws and other legislative acts governing the rights of stockholders to receive dividends are subject to various interpretations.

Retained earnings of the Company's Russian subsidiaries were RUR 5.8 billion and RUR 3.4 billion, respectively as of December 31, 2006 and 2005, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2006 and 2005 amount to USD 220 million and USD 117 million, respectively.

The Stockholders declared dividends of 60 US dollars per common share for 2006 on November 1, 2006.

Earnings per share

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

	Year ended December 31, 2006	Year ended December 31, 2005
Net income available for common stockholders	90,765	33,852
Weighted average number of outstanding shares (post split)	118,682,500	123,425,000
Basic earnings per share of common stock (US dollars)	0.76	0.27

There is no potential dilution in earnings available to common stockholders and as such diluted earnings per share are not disclosed.

Note 16. Business combinations

In December 2006, the Group company acquired 100% of the outstanding common shares of LUKOIL Overseas Orient Limited and LUKOIL Shelf Limited from the LUKOIL Group for USD 40.3 million paid in cash. LUKOIL Shelf Limited is operating the Astra drilling rig owned by LUKOIL Overseas Orient Limited in the Caspian sea.

The companies are providing offshore well drilling services in the Caspian sea to various oil and gas companies in the Russian Federation, Kazakhstan and Turkmenistan. The purpose of the acquisition was to initiate the offshore drilling operations of the Group in the Caspian region.

The values of certain liabilities are based on preliminary valuations and are subject to adjustment as additional information is obtained. Changes to the carrying value of the liabilities may result in adjustments to the carrying value of property, plant and equipment acquired.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	19,590
Property, plant and equipment	27,298
Other non-current assets	11
Total assets acquired	46,899
Current liabilities	(5,364)
Non-current deferred tax liabilities	(1,235)
Total liabilities assumed	(6,599)
Net assets acquired	40,300

Note 17. Commitments and contingencies

Commitments

Commitments for provision of drilling services

Under the terms of sale and purchase agreement between Eurasia Drilling Company Limited and OAO NK LUKOIL, the Group has committed to rendering future drilling services to LUKOIL Group Companies.

Under this agreement the Group will provide drilling services to the LUKOIL Group and precise terms of rendering of such services will be set by signing annual well construction contracts with the LUKOIL Group starting from January 1, 2005 through December 31, 2009. The estimated level of drilling to be performed by the Group during this five-year period was agreed at a minimum of 6.5 million meters. The estimated revenues for the developmental drilling services set out in the contract at the date of acquisition were RUR 73.19 billion (USD 2.6 billion). The prices for drilling services under these contracts are based on market prices and reviewed on an annual basis.

Under the terms of the contract, drilling services of USD 773 million, USD 697 million and USD 702 million will be provided by the Group during 2007, 2008 and 2009, respectively.

In the event of any agreed change in the scope of work or any failure to provide or fulfill the agreed scope of work by either party, Eurasia Drilling Company Limited or OAO NK LUKOIL, during the years 2005 to 2009, as well as in the event of any consequences arising out of such party's failure to fulfill its obligations, the defaulting party shall compensate to the other party any reasonable losses. Such compensation may be equal to the share of the reduced revenues, in the form of the provision or fulfillment of other types of contracted work, as well as any penalties applicable under the contract.

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. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss of certain assets could have an adverse effect on the Group's operations and financial position.

Litigation

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

Environmental obligations

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

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

Taxation

The taxation system in the Russian Federation, Kazakhstan and Turkmenistan is relatively new and is 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 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.

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

Note 18. Related party transactions

During 2006, the Group purchased well construction and related services from an affiliated company, PetroAlliance Services Company Limited ("PAS"), of USD 20.6 million (2005: USD 9.9 million). Amounts payable to PAS were USD 5.1 million and USD 0.2 million as of December 31, 2006 and 2005, respectively. A stockholder of the Company is the chairman of the Board of Directors of PAS.

During 2006, the Company received long-term loans of USD 60 million from its stockholders (refer to Note 10). Interest expense of USD 0.3 million was recognized during 2006 which is included in accounts payable as of December 31, 2006.

During 2006 the Company received property, plant and equipment under capital lease from an associated company and a company in which a substantial stockholder has a controlling interest OAO LK Leasing, with a carrying amount of USD 17.9 million. Capital lease obligations were USD 21.1 million (2005: USD 0.9 million).

During 2005 the Group received transportation and well services of USD 108 million from entities which were controlled by a stockholder and member of management. In addition the Group sold USD 18 million of inventories to those entities.

Note 19. Segment information

The Group's business is the provision of drilling services in Russia and the Caspian Sea. Management collects financial information and makes operational decisions based on one operating and geographical segment.

Note 20. 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.

	2006	2005
Sales for the year ended December 31	956,759	560,783
Accounts receivable as of December 31	116,027	51,990

Note 21. Subsequent events

In April 2007 the Company received a loan of USD 10 million bearing an interest at 8.60% per annum from a stockholder.

Note 22. Stock split

On July 31, 2007 the Stockholders declared a 2,500-to-1 stock split. In connection with the stock split, the Stockholders have approved an amendment to the articles of association to increase the number of authorized common stock from 50,000 to 125 million and to decrease the par value of each share of outstanding common stock from USD 1 per share to USD 0.01 per share. As a result, the Company will transfer USD 1.2 million from additional paid-in capital to common stock, representing the par value of additional shares issued to the Stockholders. Earnings per share amounts shown in these consolidated financial statements for all periods reflect this stock split.

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