IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the attached Prospectus. In accessing the attached Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

THE ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE ATTACHED PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS THAT ARE NOT "**U.S. PERSONS**" AS DEFINED IN REGULATION S UNDER THE US SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THE ATTACHED PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE ATTACHED PROSPECTUS 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 UNDER THE US SECURITIES ACT ("**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 the attached Prospectus or make an investment decision with respect to any securities, investors must be (i) "**qualified institutional buyers**" (as defined in Rule 144A under the Securities Act) or (ii) "**non-U.S. persons**" (as defined in Regulation S under the Securities Act) outside the United States who are not acting for the account or benefit of U.S. Persons. By accessing these materials, you shall be deemed to have represented to us that you (i) are a qualified institutional buyer or (ii) are outside the United States and are not a U.S. Person and are not acting for the account or benefit of a U.S. Person.

Under no circumstances shall the attached Prospectus constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities being offered, in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached Prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the attached Prospectus.

The Notes are not eligible for placement and circulation in the Russian Federation, unless, and to the extent, otherwise permitted by Russian law. The information provided in the attached Prospectus is not an offer, or an invitation to make offers, sell, exchange or otherwise transfer the Notes in the Russian Federation or to or for the benefit of any Russian person or entity.

The attached Prospectus and information contained herein does not constitute an advertisement or an offer of any securities in the Russian Federation. It is not intended to be, and must not be, distributed or circulated in the Russian Federation unless and to the extent otherwise permitted under Russian law.

You are reminded that the attached Prospectus has been delivered to you on the basis that you are a person into whose possession the attached 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 the attached 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 underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of EDC Finance Limited (the "**Issuer**") in such jurisdiction.

The attached 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 neither the Issuer, Eurasia Drilling Company Limited ("**EDC**"), OOO Burovaya Kompaniya Eurasia ("**BKE**"), OOO SGC-Drilling ("**SGC-Drilling**", and, together with EDC and BKE, the "**Guarantors**"), Goldman Sachs International, Merrill Lynch International and SIB (Cyprus) Limited (the "**Joint Lead Managers**") nor any person who controls them nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the attached Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer, the Guarantors and the Joint Lead Managers.

EDC Finance Limited

(incorporated under the laws of Ireland)

US$600,000,000 4.875% Guaranteed Notes due 2020

unconditionally and irrevocably, and jointly and severally, guaranteed by

Eurasia Drilling Company Limited

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

OOO Burovaya Kompaniya Eurasia

(*incorporated under the laws of the Russian Federation*)

and

OOO SGC-Drilling

(*incorporated under the laws of the Russian Federation*)

Issue Price: 100%

EDC Finance Limited, a company incorporated under the laws of Ireland (the "**Issuer**"), is offering (the "**Offering**") an aggregate principal amount of US$600,000,000 4.875% Guaranteed Notes due 2020 (the "**Notes**"). Eurasia Drilling Company Limited ("**EDC**" of the "**Company**"), OOO Burovaya Kompaniya Eurasia ("**BKE**") and OOO SGC-Drilling ("**SGC-Drilling**" and, together with EDC and BKE, the "**Guarantors**") will unconditionally and irrevocably, and jointly and severally, guarantee the due and prompt payment of all amounts at any time becoming due and payable in respect of each of the Notes (the "**Guarantees**"). The Notes will be constituted under a trust deed to be entered into between Citibank, N.A., London Branch (the "**Trustee**"), the Issuer and the Guarantors on April 17, 2013 (the "**Trust Deed**"). The Notes will be subject to, and have the benefit of, the Trust Deed, including the Guarantees set out therein.

The Issuer will pay interest on the Notes at an annual rate equal to 4.875% of their outstanding principal amount. Interest on the Notes is payable semi-annually in arrear on April 17 and October 17 of each year, commencing on October 17, 2013. Payments on the Notes (including payments by the Guarantors) will be made without withholding or deduction for or on account of taxes, unless such withholding or deduction is required by law. In the event of any withholding or deduction for or on account of taxes of Ireland, the Cayman Islands or the Russian Federation, as the case may be, the Issuer or (as the case may be) the Guarantors will, subject to certain exceptions and limitations, pay additional amounts to the holder of any Note to the extent described in the terms and conditions of the Notes (the "**Terms and Conditions**") under "Terms and Conditions of the Notes." The Issuer may redeem the Notes in whole but not in part at 100% of the principal amount thereof, plus accrued and unpaid interest, in the event of certain taxation changes and otherwise as described under "Terms and Conditions of the Notes — Redemption and Purchase — Redemption for tax reasons."

The Notes will be direct, unsubordinated and (subject to the negative pledge in Condition 4.1) unsecured obligations of the Issuer and will rank *pari passu* among themselves and *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, and each of the Guarantees will be a direct, unsubordinated and (subject to the negative pledge in Condition 4.1) unsecured obligation of the Guarantor providing such Guarantee and will at all times rank at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Guarantor providing such Guarantee, save in the case of the Notes and each of the Guarantees, for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

This document (the "**Prospectus**") has been approved by the Central Bank of Ireland as competent authority under Directive 2003/71/EC (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. This Prospectus comprises a Prospectus for the purposes of Article 5 of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (the "**Prospectus Regulations**"). Application has been made to the Irish Stock Exchange (the "**Irish Stock Exchange**") for the Notes to be admitted to the Official List (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**"). The Main Securities Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC. No assurance can be given that the application will be granted. Furthermore, admission of the Notes to the Official List and trading on its Main Securities Market is not an indication of the merits of the Issuer, the Guarantors, the Notes or the Guarantees. References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Main Securities Market of the Irish Stock Exchange. There can be no assurance that a trading market in the Notes will develop or be maintained.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE THE SECTION OF THIS PROSPECTUS ENTITLED "RISK FACTORS" BEGINNING ON PAGE 7.

The Notes and the Guarantees (the "**Securities**") have not been and will not be registered under the US Securities Act of 1933, as amended (the "**Securities Act**"), or under any securities laws of any other jurisdiction. Subject to certain exemptions, or transactions not subject to, the Securities Act, the Securities may not be offered or sold within the United States or to, or for the account or benefit of, US Persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). The Securities will be offered and sold outside the United States to non-US persons in offshore transactions as defined in and in reliance on Regulation S and in the United States to qualified institutional buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act), in reliance on an exemption from registration pursuant to Rule 144A under the Securities Act ("**Rule 144A**"). Prospective purchasers of the Securities are hereby notified that the seller of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Issuer has not been and will not be registered under the Investment Company Act of 1940 (the "**Investment Company Act**"). Neither the United States Securities and Exchange Commission ("**SEC**") nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this Prospectus. Any representation to the contrary is a criminal offence. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration thereunder or exemption therefrom. For a description of these and certain further restrictions on the transfer of the Notes, see "Transfer Restrictions, Clearing and Settlement."

The Notes will be offered and sold in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The Notes that are being offered and sold in accordance with Regulation S (the "**Unrestricted Notes**") will initially be represented by beneficial interests in an Unrestricted global note (the "**Unrestricted Global Note**") in registered form, without interest coupons attached, which will be registered in the name of a nominee for and will be deposited with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or about April 17, 2013 (the "**Closing Date**"). Notes which are offered and sold in reliance on Rule 144A will initially be represented by beneficial interests in a global note (the "**Restricted Global Note**" and, together with the Unrestricted Global Notes, the "**Global Notes**") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**"). Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg, and their account holders. Definitive notes in respect of beneficial interests in the Unrestricted Global Note and Restricted Global Note ("**Unrestricted Definitive Note Certificates**" and "**Restricted Definitive Note Certificates**", respectively, and together, the "**Definitive Note Certificates**") will not be issued except as described under "Summary of Provisions Relating to the Notes while in Global Form — Exchange of Interests in Global Notes for Definitive Note Certificates."

The Notes are expected to be rated BB+ by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and BB(EXP) by Fitch Ratings Limited ("**Fitch**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. Each of S&P and Fitch (which each provide ratings in relation to the Company and its subsidiaries (the "**Group**") and the Notes) are established in the European Union and registered in accordance with Regulation (EU) No 1060/2009 (the "**CRA Regulation**").

Joint Lead Managers

BofA Merrill Lynch **Goldman Sachs International** **Sberbank CIB**

The date of this Prospectus is April 16, 2013

IMPORTANT INFORMATION ABOUT THE OFFERING

For information about the Issuer, the Group and the Guarantors, the Offering and the terms and conditions of the Notes and the Guarantees, you should rely only on the information contained in this Prospectus. Goldman Sachs International, Merrill Lynch International and SIB (Cyprus) Limited (the "**Joint Lead Managers**"), the Issuer, the Guarantors and Citibank, N.A., London Branch (the "**Trustee**") have not authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that, unless otherwise indicated, the information appearing in this Prospectus is accurate as of the date of this Prospectus only. The Issuer's and the Guarantors' business, financial condition, results of operations and the information set forth in this Prospectus may have changed since that date.

THE NOTES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE BOUGHT AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. AN INVESTMENT IN THE NOTES IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND MAY RESULT IN THE LOSS OF ALL OR PART OF THE INVESTMENT.

The Issuer and each of the Guarantors accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer and each of the Guarantors (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.

The Issuer and the Guarantors obtained the industry and market data used in this Prospectus from the sources set out in "Presentation of Financial and Other Information—Information Extracted from Third Parties." Although the Issuer and the Guarantors believe that such sources are reliable, such information and data have not been independently verified by the Issuer, the Guarantors, the Joint Lead Managers, the Trustee or any of their respective affiliates or agents. None of the Issuer, the Guarantors, the Joint Lead Managers or the Trustee nor any of their respective affiliates or agents make any representation or warranty relating thereto other than the representation made by the Issuer and the Guarantors in "Presentation of Financial and Other Information—Information Extracted from Third Parties."

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Each Noteholder participating in the Offering will be deemed to have made certain acknowledgments, representations and agreements as set forth under the section of this Prospectus entitled "Transfer Restrictions, Clearing and Settlement." The Notes and the Guarantees have not been registered under the Securities Act or any state securities laws or the laws of any other jurisdiction, are subject to restrictions on transferability and resales, and unless so registered, may not be transferred or resold except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and other applicable securities laws.

Neither the Joint Lead Managers nor the Trustee makes any representation or warranty, express or implied, as to the accuracy or completeness of any of the information in this Prospectus or any other information supplied in connection with the Notes and the Guarantees. Each person receiving this Prospectus acknowledges that such person has not relied on any of the Joint Lead Managers or the Trustee in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating accepting the Offering and making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and the Guarantors and its own determination of the suitability of such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment. No person has been authorized in connection with the Offering to make or provide any representation or information regarding the Issuer, the Guarantors, the Notes or the Guarantees other than as contained in this Prospectus. Any such representation or information should not be relied upon as having been authorized by the Issuer, the Guarantors, the Joint Lead Managers or the Trustee.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note in the Offering shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantors since the date of this Prospectus. Unless otherwise indicated, all information in this Prospectus is given as of the date hereof. Neither the Issuer nor the Guarantors nor any other person assumes any obligation (and expressly declares that it has no such obligation) to update or change any information contained in this Prospectus once there is no longer a requirement under the Prospectus Directive for the Prospectus to be updated.

This Prospectus does not constitute an offer of, or the solicitation of an offer to buy or an invitation to subscribe for or purchase, by or on behalf of the Issuer, the Guarantors, the Joint Lead Managers or any other person, the Notes in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offering, sale and delivery of the Notes in the Offering in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Joint Lead Managers, the Issuer, the Guarantors and the Trustee to inform themselves about and to observe any such restrictions. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorized or is unlawful. For a description of certain further restrictions on offers, sales, deliveries and transfers of the Notes and distribution of this information, see the sections of this Prospectus entitled "Subscription and Sale" and "Transfer Restrictions, Clearing and Settlement."

None of the Issuer, the Guarantors, the Joint Lead Managers, the Trustee or any of their respective affiliates or agents makes any representation about the legality of the acceptance of the Offering or the purchase of, or exchange for, the Notes by an investor under applicable investment or similar laws. Each prospective investor is advised to consult its own counsel and business advisor as to legal, business and related matters concerning the acceptance of the Offering and the Notes. The contents of this Prospectus are not to be construed as legal, business or tax advice. Prospective purchasers should be aware that they might be required to bear the financial risks of an investment in the Notes for an indefinite period of time.

Each prospective purchaser of the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes and must obtain any consent, approval or permission required of it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Guarantors, the Joint Lead Managers, the Trustee or any of their respective affiliates or agents shall have any responsibility therefor.

The Issuer may withdraw the Offering at any time and the Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes in whole or in part and to sell to any prospective investor less than the full amount of Notes sought by such investor. In connection with the Offering, the Joint Lead Managers and any of their affiliates, acting as investors for their own accounts, may purchase Notes and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Notes and other securities of the Issuer or the Guarantors or related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the Notes being issued, offered, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or acquisition, placing or dealing by, the Joint Lead Managers and any of their affiliates acting as investors for their own accounts. The Joint Lead Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

The Notes have not been recommended by or approved by the SEC or any other federal or state securities commission or regulatory authority, nor has any commission or regulatory authority passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

This Prospectus has been filed with and approved by the Central Bank of Ireland as required by the Prospectus Regulations. This Prospectus, as approved by the Central Bank of Ireland, will be filed with the Companies Registration Office in accordance with Regulation 38(1)(b) of the Prospectus Regulations.

Any investment in Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank of Ireland. The Issuer is not and will not be regulated by the Central Bank of Ireland as a result of issuing the Notes.

STABILIZATION

IN CONNECTION WITH THE ISSUE OF THE NOTES, GOLDMAN SACHS INTERNATIONAL (THE "**STABILIZING MANAGER**") (OR PERSONS ACTING ON ITS BEHALF) MAY OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON ITS BEHALF) WILL

UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFERING OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILIZING MANAGER (OR PERSONS ACTING ON ITS BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

AVAILABLE INFORMATION

The Issuer and the Guarantors have agreed that, so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act, the Issuer and the Guarantors will, during any period in which it is neither subject to Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the "**Exchange Act**") nor exempt from reporting thereunder pursuant to Rule 12g3-2(b) under the Exchange Act, provide to any holder or beneficial owner of any such "restricted security", or to any prospective purchaser of such restricted security designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) of the Securities Act upon the request of such holder or beneficial owner.

NOTICE TO INVESTORS IN THE UNITED STATES

THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER REGULATORY AUTHORITY IN THE UNITED STATES NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE SECURITIES OR THE ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES. THE SECURITIES ARE BEING OFFERED AND SOLD TO NON US PERSONS OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND BY THE JOINT LEAD MANAGERS THROUGH THEIR RESPECTIVE REGISTERED BROKER-DEALER AFFILIATES INSIDE THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF RULE 144A OF THE SECURITIES ACT, IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (SEE "SUBSCRIPTION AND SALE"). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF ANY RESTRICTED NOTE MAY BE RELYING UPON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, ("**RSA**") AS AMENDED, 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 NEW HAMPSHIRE SECRETARY OF STATE 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 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.

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230, THE GROUP HEREBY INFORMS YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO US FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE US INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN TO SUPPORT THE MARKETING OF THE NOTES. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

NOTICE TO INVESTORS IN THE UK

This Prospectus is only directed at persons who (i) are outside the United Kingdom or (ii) are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**") or (iii) are persons falling within Article 49(2)(a) to (e) of the Financial Promotion Order (all such persons together being referred to as "**relevant persons**"). This Prospectus must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

NOTICE TO RUSSIAN INVESTORS

The Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer securities in the Russian Federation to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. Information contained in the Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Russian QIs**") and must not be distributed or circulated into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for "placement" or "circulation" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

LIMITATION ON ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer's and the Guarantors' presence outside the United Kingdom and the United States may limit your legal recourse against the Issuer and the Guarantors. The Issuer is a private limited company incorporated under the laws of Ireland and the Guarantors are incorporated under the laws of the Cayman Islands and the Russian Federation. Certain of the Issuer's and the Guarantors' directors and executive officers named in this Prospectus reside outside the United Kingdom and the United States. All or a substantial portion of the Guarantors' assets and the assets of the Guarantors' officers and directors are also located principally in the Cayman Islands and Russia. As a result, it may not be possible for the Trustee, acting on behalf of Noteholders or, in certain circumstances, a Noteholder, to:

- effect service of process within the United Kingdom or the United States on the Issuer or the Guarantors or on the Issuer's or the Guarantors' officers and directors named in this Prospectus; or
- obtain or enforce English or US court judgments against the Issuer, the Guarantors, the Issuer's or Guarantors' officers and directors on any basis, including actions under the civil liability provisions of English law or US securities laws.

Under the terms of the Trust Deed and the Guarantees, the Issuer and the Guarantors will each appoint an agent for service of process in London, England, for claims under the Trust Deed and the Guarantees. It is possible that a Russian court will not recognize this appointment. The Issuer and the Guarantors will not appoint agents for service of process in the United States. It may be difficult for the Trustee, acting on behalf of Noteholders, to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom or United States, liabilities predicated upon English law or US securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognized by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law of the Russian Federation providing for the mutual recognition and enforcement of foreign court judgments is in effect. No such treaty exists between the United States and the Russian Federation, or between the United Kingdom and the Russian Federation, for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. However, according to recent trends in Russian court practice, a foreign judgment can be recognized and enforced in the Russian Federation based on the principles of reciprocity and international comity, provided, however, that there is a bilateral or multilateral treaty to which the Russian Federation and the relevant foreign country are parties. Currently, there exist at least two cases in which Russian courts recognized and enforced the foreign court judgments based on such principals (an English court judgment in one instance and a Dutch court judgment in another instance). However, in the absence of established court practices, it is difficult to predict whether a Russian court will be inclined in any particular case to recognize and enforce an English court judgment on these grounds. These limitations may deprive the Trustee of effective legal recourse for claims related to your investment in the Notes.

There are no bilateral treaties 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 English or US courts, respectively. In addition, there is no statutory enforcement in the Cayman Islands of judgments obtained in English or US courts. 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 judgment of a foreign court at common law, without re-examination of the merits, by an action commenced on the foreign judgment in the Grand Court of the Cayman Islands provided such foreign judgment (1) is one in respect of which the foreign court had jurisdiction over the defendant according to Cayman Islands conflict of law rules, (2) is final and conclusive, (3) is a judgment in personam and not in rem, (4) is not in respect of taxes or a fine or other penalty or similar fiscal or revenue obligations, and (5) is not impeachable for fraud or because its enforcement would be contrary to Cayman Islands public policy or because it was obtained in breach of natural justice. 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 in respect of the same matter are being or have been brought elsewhere.

The Notes, the Guarantees and the Trust Deed are governed by the laws of England and the Issuer has agreed in the Trust Deed and the Guarantors have agreed in the Guarantees that disputes arising thereunder and under the Notes are subject to arbitration in accordance with the Rules of Arbitration of the LCIA, formerly known as the London Court of International Arbitration, with the seat of any such arbitration in London, England. See "Terms and Conditions of the Notes — Governing Law and Arbitration." The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**"). Consequently, an arbitral award from an arbitral tribunal in the United Kingdom, or the United States would generally be recognized and enforced in the Russian Federation on the basis of the rules of the New York Convention. However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

- the limited experience of Russian courts in international commercial transactions;
- official and unofficial political resistance to the enforcement of awards against Russian companies in favor of foreign investors; and
- the inability of Russian courts to enforce such orders and corruption.

See "Risk Factors — Risks Relating to the Issuer and the Notes—Investors may have limited recourse against us, our directors and executive officers because we conduct our operations outside the United States and most of our current directors and executive officers reside outside the United States." Russian courts generally only recognize foreign court judgments or arbitral awards pursuant to bilateral or multilateral treaty arrangements. The possible need to re-litigate on the merits in the Russian Federation a court judgment obtained elsewhere may significantly delay the enforcement of such judgment. Under current Russian law, certain amounts may be payable upon the initiation of any action or proceeding related to the Notes, the Guarantees or the Trust Deed in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

The New York Convention was brought into effect in the Cayman Islands by the Foreign Arbitral Awards Enforcement Law (1975 and now 1997 Revision) (the "**Foreign Arbitral Awards Law**"). The United Kingdom extended the territorial application of the New York Convention to the Cayman Islands on 26 November 1980. Pursuant to the Foreign Arbitral Awards Law, an award made in pursuance of an arbitration agreement in a foreign country (being a party to the New York Convention) may be enforced with the leave of the Cayman Islands courts and judgment entered in terms of the award and such leave shall not be refused except:

(a) if the person against whom the award is invoked proves that:

  (i) a party to the relevant arbitration agreement was (under the law applicable to him) under some incapacity;

  (ii) the relevant arbitration agreement was not valid under the law to which the parties subjected it or, failing any indication thereon, under the law of the country where the award was made;

  (iii) such person was not given proper notice of the appointment of the arbitrator or of the arbitration proceedings or was otherwise unable to present their case;

  (iv) subject to (c) below, the award deals with a difference not contemplated by or not falling within the terms of the submission to arbitration or contains decisions on matters beyond the scope of the submission to arbitration;

  (v) the composition of the arbitral authority or the arbitral procedure was not in accordance with the agreement of the parties or failing such agreement with the law of the country where the arbitration took place; or

  (vi) the award has not yet become binding on the parties, or has been set aside or suspended by a competent authority of the country in which or under the law of which it was made;

(b) enforcement may be refused if the award is in respect of a matter which is not capable of settlement by arbitration or if it would be contrary to public policy to enforce the award;

(c) an award which contains decisions on matters not submitted to arbitration may be enforced to the extent that it contains decisions on matters submitted to arbitration which can be separated from those on matters not so submitted; or

(d) where an application for the setting aside of an award has been made to such a competent authority as is mentioned in sub-paragraph (a)(vi) above, the court before which enforcement of the award is sought may, if it thinks fit, adjourn the proceedings and may on the application of the party seeking to enforce the award order the other party to give security.

There have been recent legislative changes brought about by the Arbitration Law, 2012 of the Cayman Islands (as amended) (the "**Arbitration Law**"), pursuant to which any arbitral award, irrespective of the country in which it was made, shall be recognized as binding and, upon application to the Grand Court of the Cayman Islands, is to be enforced (whether or not it is a New York Convention award) subject to the same qualifications set out in (a) to (d) above.

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 worldwide 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 and manage our growth;
- 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;
- our ability to win new contracts and to renew and extend existing contracts with customers;
- various hazards associated with drilling operations;
- changes in the regulation of oilfield services and the environment;

- competition in the marketplace;
- development of new technologies;
- 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.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The financial information of the Company set forth herein has, unless otherwise indicated, been derived from the consolidated financial statements of the Company in respect of the years ended December 31, 2012, 2011 and 2010 (the "**Consolidated Financial Statements**") as set forth on pages F-2 through F-32 of this Prospectus. The Consolidated Financial Statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("**US GAAP**"). In 2012 we changed our revenue recognition policy from units-of-delivery method to the percentage-of-completion method. This change was caused by the intention to transition from US GAAP to IFRS at some future date. Both methods are acceptable under US GAAP but percentage-of-completion method is preferable due to providing more transparency and more regular recognition of income. The adjustments required to reflect this change in accounting policy are disclosed in Note 2 to the Consolidated Financial Statements. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Revenue recognition").

We intend to change the basis on which we prepare our financial statements from US GAAP to IFRS. We currently anticipate that we will continue to report our financial results under US GAAP up to and including the year 2014, but intend to report our interim and full-year 2015 financial results under IFRS. We do not expect the adoption of IFRS to have a material impact on our results of operations, financial position and cash flows.

Non-US GAAP Financial Information

Certain financial measures and ratios related thereto in this Prospectus are not measurements which are specifically defined under US GAAP. These measures include EBITDA which means profit/loss for the period adjusted for income tax expense, finance income and expenses, share of net income/loss of joint ventures, depreciation and amortization, impairment of property, plant and equipment and intangible assets, gain/loss on disposal of investments, property, plant and equipment, currency transaction gain/loss and exceptional items. These measures are presented in this Prospectus because the Company believes that they and similar measures are widely used in the industry as a means of evaluating a company's operating performance and financing structure. These measures may be calculated differently and may not be comparable to other similarly titled measures of other companies. The non-US GAAP measures have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of the Company's results as reported under US GAAP as set forth in the Consolidated Financial Statements. More detailed explanation of these non-US GAAP measures is set out in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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, 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;

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

"**FASB**" are to the Financial Accounting Standards Board;

"**IASB**" are to the International Accounting Standards Board;

"**IFRS**" are to the International Financial Reporting Standards as issued by the IASB;

"**Issuer**" are to EDC Finance Limited, a company incorporated under the laws of Ireland;

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

"**OFS**" are to oilfield services;

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

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

"**SGC-Drilling**" are to OOO "SGC-Drilling", a Russian limited liability company, the second largest operating entity of our onshore drilling services division;

"**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, OOO Kliver, OOO KRS Eurasia, OOO Meridian, SGC-Drilling, ZAO Samatlorsky KRS ("**SKRS**") and TOO BKE Kazakhstan Burenie) is the US dollar. The functional currency of BKE, OOO Kliver, OOO KRS Eurasia, OOO Meridian, SGC-Drilling and SKRS is the Russian ruble, and the functional currency of TOO BKE Kazakhstan Burenie is the Kazakh Tenge. 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 Consolidated Financial Statements.

	High	Low	Period average(1)	Period end
	RUB per US$1.00			
Year				
2010	31.8	28.9	30.4	30.4769
2011	32.7	27.3	29.4	32.1961
2012	34.0	28.9	31.1	30.3727
Month				
January 2013	30.4	30.0	30.3	30.0277
February 2013	30.6	29.9	30.2	30.6202
March 2013	31.1	30.5	30.8	31.0834

(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 April 15, 2013 was 31.3051 rubles per US$1.00.

Information Extracted From Third Parties

Market data used in this Prospectus under the captions "Overview", "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.

The statistical and market information presented in the Prospectus, including information about the Russian oilfield services industry, has been obtained from the following third-party sources:

- the BP Statistical Review of World Energy published in June 2012;
- a report entitled "Russian Upstream and Oil Service Industry" published in September 2012, as supplemented in March 2013 and prepared by REnergyCo ("**REnergyCo**");
- a report entitled "The World Land Drilling Rig Market Forecast" dated November 12, 2012 and prepared by Douglas Westwood ("**Douglas Westwood**"); and
- a report entitled "The need for more drilling rigs in the Caspian Sea" published in September 2012 and prepared by Wood Mackenzie ("**Wood Mackenzie**").

REnergyCo is registered under the laws of Canada with its registered address at 157 Alderwood Street, Stouffville, ON, Canada. Douglas Westwood is registered under the laws of England with its registered address at Whitebeams, Pett Bottom, Canterbury, Kent, CT4 6EH, England. Wood Mackenzie is registered under the laws of Scotland with its registered address at Exchange Place 2, 5 Semple Street, Edinburgh EH3 8BL, United Kingdom. REnergyCo, Douglas Westwood and Wood Mackenzie are independent consulting and research companies specializing in the oil and gas industry and have no material interest with any other person or company involved in the interests which are subject of the information attributable to them in this Prospectus. Each of REnergyCo, Douglas Westwood and Wood Mackenzie has given and not withdrawn its consent to the inclusion of the statements from their respective reports in the Prospectus in the form and context in which they appear.

Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that certain estimates made by the Group may be based on such third-party information. The Issuer and the Guarantors have derived substantially all of the information contained in this Prospectus concerning the Group's competitors from publicly available information, such as publicly available economic and industry research reports, and have accurately reproduced such information and, as far as the Issuer and the Guarantors are aware and are able to ascertain from such information, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this information with caution. Neither the Issuer, the Guarantors nor the Joint Lead Managers have independently verified the figures, market data or other information on which third parties have based their studies.

In addition, some of the third party information contained in this Prospectus has come from official data released by Russian government agencies and the CBR. The official data published by Russian federal, regional and local government agencies may be substantially less complete or researched than similar data from more developed countries. Official statistics, including those released by the CBR, may also be produced on different bases than those used in more developed countries. Any discussion of matters relating to the Russian Federation in the 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 subject to error."

Other than information obtained from third parties, certain information included in this Prospectus is based on management's estimates and calculations and has not been independently verified.

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OVERVIEW

This section of the Prospectus contains basic information about the Group and its industry. You should read the entire Prospectus carefully, including the "Risk Factors" and the Consolidated Financial Information included elsewhere in this Prospectus.

Business Overview

We are the largest provider of onshore drilling services in Russia, as measured by the number of meters drilled, according to REnergyCo. We also provide offshore drilling services in the Caspian Sea and are the largest provider of such services in the sectors where we operate, based on the number of jack-up drilling rigs, according to Wood Mackenzie. We offer our onshore integrated well construction 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. In addition, we provide onshore drilling services in Iraq. Our total land fleet consists of 670 onshore drilling, sidetracking and workover rigs and our offshore fleet consists of two jack-up rigs.

For the year ended December 31, 2012, we had total revenue of US$3,237 million, EBITDA of US$790 million and net income of US$382 million, compared to total revenue of US$2,767 million, EBITDA of US$603 million and net income of US$283 million for the year ended December 31, 2011 and total revenue of US$1,822 million, EBITDA of US$437 million and net income of US$207 million for the year ended December 31, 2010.

Our business is currently organized into two main divisions: onshore and offshore drilling services. For the year ended December 31, 2012, we had total revenue of US$3,071 million from our onshore division and total revenue of US$166 million from our offshore division.

For the year ended December 31, 2012, we had an estimated market share of approximately 29% of the onshore drilling services market in Russia, as measured by the number of meters drilled, compared to 25% for the year ended December 31, 2011, according to REnergyCo. Our onshore fleet of 253 land drilling and sidetracking rigs are located in all major Russian oil and gas producing regions, including Western Siberia, Volga-Urals, Eastern Siberia and Timan Pechora. In all these regions we have well-established land support bases. We have expanded our Russian onshore drilling business organically since acquiring substantially all of LUKOIL's onshore drilling assets in 2004. Since our entry into the onshore drilling services, we have transformed the business from an in-house cost center to a major independent oilfield service provider with sound finances and materially improved operating efficiency. 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 6,400 meters. In addition, we provide a wide range of onshore workover and sidetracking services. As of December 31, 2012, our total workover fleet consisted of 413 workover rigs.

In April 2011, we entered into a strategic alliance in Russia and the CIS with Schlumberger, pursuant to which Schlumberger became our preferred supplier for certain drilling services for a five-year period. This transaction also involved an asset swap pursuant to which we acquired Schlumberger's drilling, sidetracking and workover assets in Russia and sold them certain of our non-core drilling businesses and assets to streamline our services portfolio. The transaction positively contributed to our operational and financial results.

Our customers include a number of major Russian and international oil and gas companies operating in Russia, such as LUKOIL, Rosneft, Gazprom Neft, TNK-BP, Repsol, Arctic Gas, Rusvietpetro, Pechoraneft, Russneft and Tomskneft.

We entered the international drilling market outside the CIS for the first time in the second half of 2012. We acquired three land drilling rigs from an existing drilling contractor and in late 2012 added a fourth rig in Iraq. All four rigs are contracted to international oil and gas companies: Afren, Gulf Keystone, HKN and Marathon Oil.

For the year ended December 31, 2012, we operated two of the three jack-up rigs operating in the Russian, Kazakh and Turkmen sectors of the Caspian Sea, according to Wood Mackenzie. We entered the offshore drilling business in 2006 by acquiring the *ASTRA* jack-up rig from LUKOIL. Since 2009, we have provided our drilling services on LUKOIL's marine ice-resistant fixed platform LSP-1 on the Yuri Korchagin field in the Russian sector of the Caspian Sea. In 2011, we acquired our second jack-up rig, the *SATURN,* from Transocean.

Our offshore drilling services division constructs oil and gas exploration and production wells in waters with depths of up to 107 meters. In addition, we have two new-build jack-up rigs that are in the process of being constructed by Lamprell plc, the *NEPTUNE* and the *MERCURY* rigs, with delivery scheduled for the third quarter of 2013 and the fourth quarter of 2014, respectively.

Our offshore customers in the Caspian Sea have included LUKOIL, Petronas Carigali (Turkmenistan) Sdn Bhd ("**Petronas**"), Dragon Oil, CMOC (a joint venture between Shell, KazMunayTeniz and the Oman Pearls Company Ltd) and the N Operating Company (a joint venture between KazMunayGas, ConocoPhillips and Mubadala).

Competitive Strengths

We believe our key competitive strengths are as follows:

- largest onshore drilling contractor in Russia and only Russian offshore drilling contractor;
- high-quality asset base with a technically advanced rig fleet;
- long-term agreements with key customers providing visible revenue streams;
- diverse geographical presence in key oil and gas producing regions of the Russian Federation;
- significant barriers to entry;
- strong financial performance and balance sheet; and
- experienced management team and highly-qualified workforce.

Strategy

The key components of our strategy are as follows:

- continue to grow our business organically and through selective acquisitions;
- maintain our focus on innovation and efficiency;
- exploit our leadership position and the unique characteristics of the Russian market;
- build partnerships with our customers and become their preferred partner; and
- expand our capabilities to provide high value-added services.

Risk Factors

An investment in the Notes involves a high degree of risk, including, but not limited to, risks associated with the following matters:

- we rely on two key customers, LUKOIL and Rosneft, for the majority of our revenues;
- expenditures by our customers tend to be cyclical, reflecting general economic conditions, such as recessions. Weakening economic conditions worldwide and in Russia, volatility in oil and gas prices or other factors could reduce our revenues or hinder our ability to maintain or increase such revenues;
- we have grown rapidly in a relatively short period, and our strategy foresees continued integration of our businesses as well as growth through, among other things, acquisitions. It is not certain that we will be successful in our integration efforts or in identifying suitable acquisition targets;
- 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;

- revocation or non-renewal of, or failure to obtain, key licenses, permissions or consents relating to our business may have a material adverse effect on our business, or on our ability to develop our business as currently planned;
- 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;
- our onshore drilling rig fleet requires substantial capital expenditures in order to periodically modernize and renovate it. In addition, we may be unable to procure sufficient numbers of new drilling rigs to pursue our growth strategy or maintain our business at its current level;
- our operations in Iraq could have a material adverse effect on our business;
- the loss of any of our key officers could have a material adverse effect on our business;
- we may be unable to attract and retain sufficient skilled personnel to enable us to operate profitably and expand our operations;
- compliance with environmental and health and safety laws and regulations could increase our costs or restrict our operations;
- our ability to provide offshore drilling services in the Caspian Sea depends on our ability to continue to secure favorable customs treatment of our offshore drilling rigs by customs authorities in Russia, Kazakhstan and Turkmenistan;
- our insurance coverage may be inadequate;
- work stoppages and other labor problems could adversely affect our business;
- rapid growth in a rapidly changing operating environment may strain our resources;
- we may require additional capital in the future, which may not be available or may only be available on unfavorable terms;
- the interests of Mr. Djaparidze, who is the largest shareholder of the Company, may conflict with those of the Noteholders;
- there are risks associated with our change from US GAAP to IFRS;
- failure to complete acquisitions may adversely impact our strategic objectives;
- 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 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;
- the history and composition of the Russian oilfield services market make data collection and comparison difficult, and such data may be incomplete and subject to error;
- fluctuations in the foreign currency exchange rates of the Russian ruble, as compared to the US dollar, may negatively impact our results of operations;
- risks relating to business operations in emerging markets, including political, economic, social, legal and taxation risks; and
- risks relating to the Issuer and the Notes.

Summary of the Offering

The Offering comprises an offer of an aggregate principal amount of US$600,000,000 4.875% guaranteed notes due 2020 by the Issuer, which will be unconditionally and irrevocably and jointly and severally guaranteed by the Guarantors. The Notes 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 approximately US$594.6 million. We intend to use the net proceeds from the Offering for the repayment of our US$220 million credit facility with Raiffeisenbank and for general corporate purposes.

Summary Consolidated Financial Information and other Data

The following table sets forth certain historical consolidated financial information as of and for the years ended December 31, 2012, 2011 and 2010. Financial information as of and for the years ended December 31, 2012, 2011 and 2010 has been extracted without adjustment from our 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.

	Year ended December 31,		
	2012	2011	2010
	(in thousands of US$)		
Consolidated statement of income data			
Drilling and related services	3,222,830	2,734,444	1,808,905
Other sales and services	14,503	32,305	13,275
Total revenues	**3,237,333**	**2,766,749**	**1,822,180**
Cost of services, excluding depreciation and taxes	(2,151,336)	(1,906,256)	(1,204,333)
General and administrative expenses, excluding depreciation and taxes	(161,270)	(144,614)	(106,920)
Taxes other than income taxes	(134,733)	(119,181)	(72,547)
Depreciation	(249,987)	(213,492)	(144,241)
(Loss) gain on disposal of property, plant and equipment	4,786	(1,362)	6,344
Impairment loss	—	(1,296)	(7,096)
Income from operating activities	**544,793**	**380,548**	**293,387**
Interest expense	(53,661)	(52,342)	(15,125)
Interest income	12,094	11,485	7,993
Currency translation gain (loss)	631	(11,054)	(7,355)
Gain on business exchange transaction	—	32,284	557
Other income (expenses)	(8)	6,495	(951)
Income before income taxes	**503,849**	**367,416**	**278,506**
Income tax expense	(121,840)	(84,045)	(71,680)
Net income	**382,009**	**283,371**	**206,826**

	As of December 31,		
	2012	2011	2010
	(in thousands of US$)		
Consolidated balance sheet data			
Total current assets	1,099,372	1,158,606	1,076,806
Total assets	3,035,055	2,603,816	1,953,807
Total current liabilities	822,179	660,763	451,286
Total liabilities	1,372,429	1,299,472	769,286
Total stockholders' equity	1,662,626	1,304,344	1,184,521
Total liabilities and stockholders' equity	3,035,055	2,603,816	1,953,807

	Year ended December 31,		
	2012	2011	2010
	(in thousands of US$)		
Consolidated cash flow data			
Cash and cash equivalents at beginning of period	509,781	629,466	433,724
Net cash provided by operating activities	592,455	425,729	322,553
Net cash used in investing activities	(617,922)	(848,865)	(325,190)
Net cash provided by financing activities	(197,140)	347,340	206,188
Cash and cash equivalents at end of period	305,333	509,781	629,466

	Year ended December 31,		
	2012	2011	2010
	(in thousands of US$, except percentages and ratios)		
Certain Items and Ratios			
EBITDA[(1)]	789,986	603,193	437,429
EBITDA margin[(2)]	24.4%	21.8%	24.0%
Capital expenditures[(3)]	619,899	399,954	283,777
Debt to equity[(4)]	0.42	0.58	0.34
Group Leverage Ratio[(5)]	0.89	1.25	0.92

(1) EBITDA represents profit (loss) before interest income (expense), income taxes, depreciation, gains (losses) on disposal of property, plant and equipment and currency transaction gains (losses). 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 purchases of property, plant and equipment and changes in restricted cash.

(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.

(5) Calculated as the ratio of our total debt to EBITDA.

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

	Year ended December 31,		
	2012	2011	2010
	(in thousands of US$)		
Net income	382,009	283,371	206,826
Add (subtract):			
Depreciation	249,987	213,492	144,241
Interest expense	53,661	52,342	15,125
Interest income	(12,094)	(11,485)	(7,993)
Income tax expense	121,840	84,045	71,680
(Gains)/losses on disposal of PP&E	(4,786)	1,362	(6,344)
(Gains)/losses on business exchange transactions	—	(32,284)	(557)
Impairment loss	—	1,296	7,096
Currency transaction losses/(gains)	(631)	11,054	7,355
EBITDA	789,986	603,193	437,429

RISK FACTORS

An investment in the Notes 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 Notes. 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 Notes could decline, resulting in the loss of all or part of an investment in the Notes.

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 two key customers, LUKOIL and Rosneft, for the majority of our revenues.

Our contracts with LUKOIL represented approximately 57%, 55% and 57% of our onshore drilling volumes, approximately 65.8%, 51.2% and 40.0% of our revenue from offshore drilling services, and approximately 70.3%, 61.2% and 63.5% of our total revenue for the years ended December 31, 2010, 2011 and 2012, respectively. Our other major customer is Rosneft, which accounted for 24% of our onshore drilling volumes and 20.5% of our total revenue for the year ended December 31, 2012. Most of our work for LUKOIL is carried out under our framework agreements with LUKOIL, the latest of which was entered into on December 28, 2012 (the "**LUKOIL Framework Agreement**"). The LUKOIL Framework Agreement requires us to provide a significant volume of drilling services to LUKOIL through December 31, 2015. According to the terms of the LUKOIL Framework Agreement, LUKOIL's contractual commitment to use our services is scheduled to end on December 31, 2015. In addition, in late 2010, in connection with our purchase of certain workover assets from LUKOIL, we entered into a five-year agreement to provide LUKOIL with various workover services. Finally, LUKOIL also represents a significant part of our offshore drilling business, as we have a multi-year agreement for our services on the LSP-1 platform on the Yury Korchagin field in the Caspian Sea. Rosneft became a major customer as a result of our acquisition of SGC-Drilling from Schlumberger in April 2011. To the extent that industry consolidation continues within the Russian oil and gas sector, our sales attributable to LUKOIL or Rosneft may further increase, making us more dependent on these key customer relationships. See "— Risks Related to Our Industry — Consolidation among oil and gas companies may result in fewer potential customers of our services or in the termination of our existing contracts with customers or suppliers." Our reliance on Rosneft as a key customer, for instance, may further increase following Rosneft's recent acquisition of TNK-BP from BP and AAR. At the same time, there can be no assurance that going forward TNK-BP will continue to use our services, particularly in the light of management changes in connection with its acquisition by Rosneft. TNK-BP accounted for 2% of our onshore drilling volumes for the year ended December 31, 2012.

The loss of LUKOIL or Rosneft as a customer will materially adversely affect our business, financial condition, results of operations, prospects and the trading price of the Notes. In addition, a reduction in the capital or operating expenditure budgets of either LUKOIL or Rosneft for whatever reason could materially adversely affect demand for our services and reduce our revenue. At the same time, our long-term contractual commitment to provide drilling services to LUKOIL may limit our ability to provide additional services to, or participate in tenders for the provision of services to, potentially more profitable customers. If we miss opportunities to expand our business with other, more profitable customers, because of our commitments towards LUKOIL, our prospects may be materially adversely affected.

Expenditures by our customers tend to be cyclical, reflecting general economic conditions, such as recessions. Weakening economic conditions worldwide and in Russia, volatility in oil and gas prices or other factors could reduce our revenues or hinder our ability to maintain or increase such revenues.

The global and Russian economies recently experienced a period of recession and unprecedented volatility, and the future economic environment in Russia may continue to be less favorable than that prior to the recession. Disasters, acts of terrorism, political uncertainty or hostilities also could lead to a reduction in drilling expenditures as a result of economic uncertainty. Economic slowdowns may have, and in the case of the recent economic slowdown, have had, consequences that impact our business and results of operations. The decrease in the price of oil from US$132.54 per barrel in July 2008 to US$40.67 in December 2008 (for Brent crude oil) resulted in a significant global decrease in drilling activity. We also face risks associated with the impact of economic downturns on our customers. If our customers file for protection under bankruptcy laws or otherwise experience negative effects on their businesses due to an economic slowdown or other reasons related to economic conditions, our business, financial condition, results of operations, prospects and the trading price of the Notes could be adversely affected. See also "— 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."

We have grown rapidly in a relatively short period, and our strategy foresees continued integration of our businesses as well as growth through, among other things, acquisitions. It is not certain that we will be successful in our integration efforts or in identifying suitable acquisition targets.

We have grown in part through acquisitions, including the acquisition of SGC-Drilling and SKRS from Schlumberger in April 2011 and the acquisition of Caspian Sea Ventures International Limited ("**CSVI Limited**") from Transocean in February 2011, and we may continue to make acquisitions in the future. While acquisitions are an important part of our growth strategy, the integration of any additional businesses we may acquire poses significant risks to our existing operations, including:

- additional and significant demands placed on our senior management, who are also responsible for managing our existing operations;
- increased overall operating complexity of our business, requiring greater personnel and other resources;
- significant initial cash expenditures to acquire and integrate new businesses;
- contingent liabilities associated with acquired businesses, especially in the markets where we operate; and
- incurrence of debt to finance acquisitions and high debt service costs related thereto.

Additionally, the integration of new businesses may be difficult for a variety of reasons, including differing cultures or management styles, legal restrictions in the target's jurisdiction, poor target records or internal controls and an inability to establish control over cash flows. Furthermore, even if we are successful in integrating new businesses, expected synergies and cost savings may not materialize, resulting in lower than expected benefits to us from such acquisitions.

When making acquisitions, it has not always been, and will not always be, possible for us to conduct a detailed investigation of the nature of the assets and the profitability of the business being acquired due to, for example, time constraints in making the decision, inadequate financial information about the target and other factors. For these and other reasons, we may become responsible for additional liabilities or obligations not foreseen at the time of an acquisition and may acquire businesses that are less profitable than originally expected. As a result, the impact of our recent, planned or future acquisitions on our results of operations and financial condition is difficult to predict and may differ from expectations. Failure to conduct appropriate due diligence on the target's operations and/or financial condition, among other factors, may also lead to overvaluation of such target and payment of consideration greater than the acquisition's market value, which in turn would necessitate subsequent write-offs, negatively impacting our financial standing. If any such risks materialize in conjunction with an acquisition, this could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the trading price of the Notes.

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 procurement 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. Our insurance coverage may be insufficient to compensate us for any such losses we incur. See "— Risks Related to Our Business — Our insurance coverage may be inadequate." If we are found liable for such damages, our business, financial condition, results of operations, prospects and the trading price of the Notes may be materially adversely affected.

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

A substantial portion of our sales are derived directly or indirectly from contracts that are awarded on a tender basis. See "— Risks Related to Our Business — We rely on two key customers, LUKOIL and Rosneft, for the majority of our revenues." 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 the 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, if the results of the tender on the basis of which we were selected are disputed and invalidated, 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, results of operations, prospects and the trading price of the Notes may be materially adversely affected. Additionally, part of our work for LUKOIL (approximately 5% of our onshore drilling volumes for LUKOIL for the year ended December 31, 2012) and all of our work for Rosneft is carried out under contracts awarded on the basis of tenders. In addition, the percentage of the work we perform for LUKOIL on the basis of tenders may increase. As a result, our drilling volumes and our margins on these volumes for Rosneft, and to a lesser extent LUKOIL, may be volatile in the mid- to long-term, depending on whether we are successful in winning the tenders and the prices at which we are forced to do so.

In our offshore drilling business, operating and maintenance costs generally do not vary in line with changes in operating revenue. Operating revenue may fluctuate as a function of changes in day rates and utilization, both of which can be affected by various factors, such as adverse weather conditions. However, the costs of operating a rig are generally fixed or only semi-variable, regardless of the day rate being earned, if any. Moreover, should one of our offshore rigs incur unpaid 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 our offshore rigs are 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. If we are unable to keep our offshore rigs fully utilized and ensure a sufficient backlog, our business, financial condition, results of operations, prospects and the trading price of the Notes could be materially adversely affected.

Additionally, our drilling contracts, including our day rate, general contractor and turnkey contracts, can be terminated by the customer under various circumstances, many of which are beyond our control. In reaction to depressed market conditions, our customers may seek renegotiation of drilling contracts to reduce their obligations or may seek to suspend or terminate their contracts. 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, our business, financial condition, results of operations, prospects and the trading price of the Notes may be materially adversely affected.

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.

Our customers conduct their operations under numerous exploration and production licenses. In Russia, for example, the 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. 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, even if not pertaining specifically to those license areas where we carry out our drilling works for them, could adversely affect our customers' operating results and financial condition and, in turn, could also affect the demand for our services, in which case our business, financial condition, results of operations, prospects and the trading price of the Notes could be materially adversely affected.

Revocation or non-renewal of, or failure to obtain, key licenses, permissions or consents relating to our business may have a material adverse effect on our business, or on our ability to develop our business as currently planned.

Under various laws and regulations, we are responsible for obtaining and maintaining a wide range of licenses, permission and consents from various regulatory and other public bodies in connection with our business, and we are required to comply generally with the laws of the jurisdictions in which we carry on our business. Regulatory authorities exercise considerable discretion in the issuance and renewal of licenses and permits, in monitoring the 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 successfully challenge 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.

There can be no assurance that all necessary licenses, consents and permissions will be obtained or renewed or, once obtained, that they will not be revoked. 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 can be no assurance that such or other violations will not occur in the future. The loss of existing licenses, permissions or consents, or the failure to obtain new licenses, permissions or consents could have a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

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, oils spills, 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 and in Iraq 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. Risks typically involved in drilling, exploration and production of oil are enhanced when carried out offshore. Our offshore operations also are subject to hazards inherent in marine operations, such as capsizing, grounding, collision and damage due to severe weather conditions. In recent years, a number of oil companies and drilling contractors had to face significant civil, administrative and criminal liability, as well as sustain substantial reputational damage, in connection with oil spills during offshore drilling operations, of which the oil spill in the Gulf of Mexico on the Macondo Prospect caused by the explosion and sinking of the Deepwater Horizon oil rig was the most severe. Despite our adherence to applicable Russian and foreign safety regulations, there can be no assurance that such events will not occur. Such accidents may result in damage to, or destruction of, drilling equipment, personal injury and loss of life, property damage, suspension of operations or environmental damage, clean-up and repair expenses, liability in civil and administrative proceedings and reputational 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 where some of these hazards materialized. In particular, in the course of 2012 several fatalities occurred at our sites due to accidents. Generally, drilling contracts provide for the division of various risks and responsibilities between the 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, there can also be no assurance that insurance will adequately cover the entire scope or extent of our losses, satisfy future claims against us or protect us against various catastrophic events. See "— Risks Related to Our Business — Our insurance coverage may be inadequate." Contractual re-distribution of liability or insurance may not always be achieved and may not 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. All these factors could have a material adverse effect on our business, financial condition, results of operations, prospects, and the trading price of the Notes.

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 in which we operate 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 Halliburton, Nabors, Weatherford 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, Integra and Ru-Energy Group, which acquired the drilling business of Gazprom Neft in 2012; and
- numerous local independent service providers that tend to provide basic services at lower prices.

In the Caspian Sea, we compete with the National Iranian Drilling Company. According to Wood MacKenzie, several new jack-up rigs slated to work in the Caspian Sea are currently under construction by Dragon Oil and KazMunaiGas, and tenders to construct several additional ones are underway, which will increase competition in this region.

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.

In January 2012, it was reported that the Russian government is considering the creation of a state-owned oilfield services company on the basis of the respective assets of Rosneft, Gazprom and other state-owned companies. Although there can be no assurance at this stage that these plans will materialize in their current form or at all, if created, such company would immediately become a significant force in the Russian drilling market and could seize a part of our market share. It would likely become the preferred services provider to most major state-owned oil companies, including our current customers such as Rosneft and Gazprom Neft.

Any or all of these competitive factors could have a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

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 adversely affect 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. Unexploited oil and gas reserves in Russia increasingly occur in more challenging environments, both geographically and geologically, and the services market in Russia is evolving toward higher technological content and advanced techniques. To justify the higher costs, technologies must deliver greater efficiency and production potential to the oil and gas producers. As the depth and complexity of drilling are increasing, drilling companies face increasing challenges in relation to fleet modernization, logistics, mobility and technology. 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, results of operations, prospects and the trading price of the Notes.

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. Our revenue from onshore drilling services may also be negatively affected by spring 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. 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 remobilize a rig prior to the spring thaw may result in the rig being forced to remain idle and in place on a well site until the following winter. This is one of the greatest challenges of operating in northern Russia. 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. As a result of 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 revenue 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. If adverse conditions are unusually intense, occur at abnormal times of year or last longer than usual, we may be unable to provide our services on schedule, which could result in penalties for delays or failure of performance 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 a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

Our onshore drilling rig fleet requires substantial capital expenditures in order to periodically modernize and renovate it. In addition, we may be unable to procure sufficient numbers of new drilling rigs to pursue our growth strategy or maintain our business at its current level.

Approximately 18% of the onshore drilling rigs that we own and operate were between 10 and 20 years old and approximately a further 33% of our drilling rigs were more than 20 years old as of December 31, 2012. Our drilling rig fleet requires us to undertake substantial capital expenditures in order to periodically modernize and renovate it and to satisfy applicable equipment certification requirements. See "Regulatory Matters — Health and Safety — Useful life of our drilling rigs." Because of the equipment breakdowns to lack of timely renovation, we may experience periods of shutdowns that may prevent us from providing our services or providing them on a timely basis. It also increases the risk of accidents and injury to our employees. See "— 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." Any or all of these factors may materially adversely affect our business, financial condition, results of operations, prospects and the trading price of the Notes.

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. The demand for new drilling rigs and rig modernization services may exceed their supply, particularly in the light of the increasing demand for more advanced rig models to address the growing complexity of drilling resulting from tightening oil resources. Furthermore, a significant part of the Russian rig fleet is at an advanced age and may require replacement in the near future, which could increase the level of demand and competition for, and the purchase price of, new rig purchases. This may put substantial pressure on the manufacturing capacity in Russia and abroad.

In our offshore drilling business, our short- and mid-term ability to grow is negatively affected by the long leadtime, typically about two years, for the construction of new offshore drilling platforms. For example, the construction of our *NEPTUNE* rig, which is scheduled to be commissioned in the third quarter of 2013, began in November 2010. Our second offshore drilling rig currently under construction, *MERCURY*, is scheduled to be delivered in the fourth quarter of 2014. We count on the delivery of the *NEPTUNE* and the *MERCURY* rigs to significantly expand our capacity and technical capability in the offshore drilling market and further increase our competitive position in the Caspian Sea, and any delays in their construction could disrupt our strategic plans in relation to the expansion of our offshore drilling business.

According to Wood MacKenzie, the rig shortage problem is particularly acute for the Caspian Sea. Because it is land-locked, the transport of rigs in and out of the Caspian Sea is extremely difficult. This problem is further exacerbated by bureaucratic obstacles to transporting goods and services between countries (see "— Risks Related to Our Business — Our ability to provide offshore drilling services in the Caspian Sea depends on our ability to continue to secure favorable customs treatment of our offshore drilling rigs by customs authorities in Russia, Kazakhstan and Turkmenistan").

If as a result of any of these factors 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 customers and, consequently, our business, financial condition, results of operations, prospects and the trading price of the Notes could be materially adversely affected.

Our operations in Iraq could have a material adverse effect on our business.

In July 2012, we entered the Iraqi market by acquiring two onshore drilling rigs, and have since expanded our fleet to four rigs. All of these rigs have been contracted out to international customers. Business in Iraq includes various specific risks including terrorist attacks, kidnapping, fatalities and additional expenses to mitigate all these risks. In addition, all risks related to the formation of a new statehood, including changes in legislation, ownership and tax regime, may arise. Acts of terrorism and threats of armed conflicts could limit or disrupt markets and our operations, including disruptions resulting from the evacuation of personnel, cancellation of contracts, or the loss of personnel or assets. Any of these factors could have a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

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, Alexander Bogachev, Eddy Redd and Murat Sampiev. These officers possess industry specific skills and experience that are critical to the continued growth and operation of our business. While we have employment contracts with all of our key officers and have also provided them with incentives to remain with us, we may not 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, results of operations, prospects and the trading price of the Notes 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 that 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 such employees or by potential increases in compensation costs associated with attracting and retaining them. 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. The competition in Russia and other markets in which we operate 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 relevant labor markets. A failure to manage our personnel needs successfully or a significant increase in our compensation costs could materially adversely affect our business, financial condition, results of operations, prospects and the trading price of the Notes.

Compliance with environmental and health 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 on-going compliance with various environmental 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
- emissions standards for operations.

The hazardous nature of our drilling operations may potentially expose us to significant environmental liability as a result of blowouts, oil spills and other such accidents. 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 other countries in which we operate 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 could materially adversely affect our business, financial condition, results of operations, prospects, and the trading price of the Notes.

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

We may be unable to secure appropriate customs treatment for the export and re-import of our offshore drilling rigs by customs authorities in Russia, Kazakhstan and Turkmenistan. In the past, the Russian Federal Customs Service (the "**FCS**") has investigated our export/re-import practices relating to drilling rigs and challenged our use of simplified export procedures with respect to the "*ASTRA*" rig. Although all such investigation against us have ended and no other such investigations or disputes are currently on-going or pending, there can be no assurance that similar investigations will not be launched in the future, potentially leading to substantial fines and less favorable customs treatment of our export and re-import operations in relation to our offshore rigs. If, in the future, we are unable to secure favorable customs treatment of our offshore drilling rigs, our business, financial condition, results of operations, prospects, and the trading price of the Notes could 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 more developed markets are not yet generally available or available on commercially acceptable terms. As a result, we are not insured for certain types of risks inherent to our business. Currently, we normally do not maintain insurance against our lost profits resulting from a business interruption, or the lost profits of our customers for which we could become liable. In the event of drilling equipment failure or damage to our drilling facilities, we may experience loss of revenue due to the possible reduction of production and we may require additional capital expenditure to repair or replace faulty equipment. Our insurance coverage may prove inadequate to cover the entire scope or extent of our losses, satisfy future claims against us or to protect us against natural disasters, the consequences of military actions, terrorist attacks, strikes, civil disorder, officially declared emergency situations, the consequences of radioactive emission or operational catastrophes, which may have a material adverse effect on our business, financial condition, results of operations, prospects, and the trading price of the Notes.

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 covered substantially all of the employees of our onshore drilling division. Although we have not experienced any labor actions, we can provide no assurance that our employees will not undertake labor action 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, results of operations, prospects, and the trading price of the Notes.

Rapid growth in a rapidly changing operating environment may strain our resources.

We have experienced rapid growth in a short period of time. Managing our growth may strain our managerial and operational resources. Our operational, administrative and financial resources may be inadequate to sustain the growth that we want to achieve. As we integrate our acquisitions and as our customer base increases, an increase in investment is needed in our technology, facilities and other areas of operations, in particular research and development, customer service and sales and marketing, which are important to our future success. As a result of such growth, we will need to continue to improve our operational and financial systems and managerial controls and procedures. We will also have to maintain close coordination among our production, technical, accounting, finance, marketing, sales and promotional personnel. If we are unable to manage our growth and expansion effectively, particularly with respect to our international operations, the quality of our products and services and customer support could deteriorate which could have a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

We may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

The drilling business is highly capital-intensive, and we have to make significant capital expenditures to keep our old rigs operational and to purchase new ones. We expect to fund our capital expenditures through internal sources and external financing. The actual amount of external financing that we will need to raise will be influenced by the actual pace of growth of our business, the competitive landscape in which we operate, the pace of technological development, our acquisition plans and our ability to continue to generate sufficient cash flows. There can be no assurance, however, that we will be able to attract sufficient funds to meet such capital requirements in the future or do so at a reasonable cost. In the future we may rely on access to debt and equity markets to meet a more significant portion of our financing requirements. Our ability to secure debt or equity financing in amounts sufficient to meet our financial needs could be materially adversely affected by many factors beyond our control, including, but not limited to, economic conditions in Russia and globally and the health of the banking sector and global capital markets. Our ability to obtain additional financing may also be limited by the terms of our existing indebtedness, including the Notes. Additional financing through bank financing, issuances of equity or debt securities may not be available or may be available on terms that are not satisfactory to us. If we cannot obtain adequate capital on favorable terms or at all, our business, financial condition, results of operations, prospects and the trading price of the Notes could be adversely affected.

The interests of Mr. Djaparidze, who is the largest shareholder of the Company, may conflict with those of the Noteholders.

Mr. Alexander Yu. Djaparidze, our Chief Executive Officer and a member of our Board of Directors, and his affiliates together currently have an interest in 47,347,030 of our shares or 32.24% of our issued share capital. In addition, Mr. Djaparidze intends to acquire shares of the Company owned by Hadar Fund Ltd. (the "**Hadar Fund**"), an investment fund that currently holds an interest in certain of the Company's shares, by way of a redemption in kind of shares held by Mr. Djaparidze in the Hadar Fund. In the event that this transaction proceeds and is completed, Mr. Djaparidze and his affiliates would together have an interest in approximately 48,722,790 of our shares or approximately 33.17% of our issued share capital. See "Principal Shareholders." Mr. Djaparidze has the ability to significantly influence our business and certain actions requiring shareholders' approval, including, but not limited to, increasing or decreasing the authorized share capital of the Company, the election of directors, declaration of dividends, amendments to the Company's memorandum and articles of association, the appointment of management and other policy decisions. Further, the interests of Mr. Djaparidze may, in certain circumstances, conflict with the interests of the Noteholders, which could have a material adverse effect on a prospective investor's investment in the Notes. Any such conflicts could materially adversely affect our business, financial condition, results of operations, prospects and the trading price of the Notes.

There are risks associated with our change from US GAAP to IFRS.

The Federal Law of the Russian Federation No. 208 "On Consolidated Financial Reporting" dated July 27, 2010, as amended, took effect on August 10, 2010. The law provides that entities that have bonds listed on a stock exchange in Russia and that report under internationally recognized accounting standards other than IFRS are required to switch to IFRS from the year 2015. Since BKE is an issuer of ruble-denominated bonds listed on the Moscow Exchange, we have elected to transition the financial reporting of the entire Group from US GAAP to IFRS. We currently anticipate that we will continue to report our financial results under US GAAP up to and including the year 2014, but intend to report our interim and full-year 2015 financial results under IFRS.

Risks associated with the conversion to IFRS include extensive costs, improper data management or migration, incomplete revisions of policies and procedures, availability of IFRS qualified personnel, future changes that the IASB may issue, and others. Although it has been reported that the IASB and the FASB are working toward convergence, many differences currently exist between the two sets of standards. Transactional and reporting differences between IFRS and US GAAP may affect our way of doing business in a manner that cannot at this stage be predicted, including changes to IT and other internal systems, risk monitoring and controls, inventory accounting, budgeting and forecasting, and key performance indicators. If we fail to adequately address all such issues before we start reporting under the IFRS, our switch to IFRS may adversely affect our business, results of operations, financial condition, and prospects.

Failure to complete acquisitions may adversely impact our strategic objectives.

We expect to continue to expand, and a part of this growth may come through acquisitions. We may not be able to identify suitable acquisition targets, and future acquisitions may not be available to us on terms as favorable as in the past. We face significant competition for potential acquisitions. In addition, we may not in the future be able to arrange financing for planned acquisitions at an attractive cost or at all. In the period since July 2007, global debt capital markets have experienced at times severe contractions, characterized by severe reductions in liquidity, especially for financial institutions, by the inability of numerous non-investment-grade borrowers to finance themselves in the public and private capital markets and by a general increase in the cost of borrowing for private-sector borrowers. Similar market reactions may adversely impact the ability of companies such as ours to borrow in the bank or capital markets and may increase the cost of such borrowing. Any failure to conclude acquisitions in the future could adversely affect our business, financial condition, results of operations, prospects and the trading price of the Notes, as well as our ability to execute our strategy.

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 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;
- the 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, while an increase in worldwide oil and natural gas prices may not necessarily result in a corresponding increase in capital expenditures by oil and gas companies and demand for our services. Any such decline could materially adversely affect our business, financial condition, results of operations, prospects and the trading price of the Notes.

Consolidation among oil and gas companies 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 Russia and globally have undergone substantial consolidation in the last few years and additional consolidation is possible. Consolidation among oil and gas companies may result in a smaller customer 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 increasing market consolidation in the oil and gas industry greatly exacerbates the possible negative implications of losing a single major customer (see "— Risks Related to Our Business — We rely on two key customers, LUKOIL and Rosneft, for the majority of our revenues"), as that business may be very difficult to replace due to the small number of larger companies in the market. 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, results of operations, prospects and the trading price of the Notes.

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 and, as a result, in-house drilling becomes more economical than engagement of third-party drilling contractors such as ourselves. Any resulting reduction in demand for our services could have a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

The history and composition of the Russian oilfield services market make data collection and comparison difficult, and such data may be incomplete and 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 more mature markets. 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; 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. There is also uncertainty regarding the ownership of assets and the size of the drilling rig fleet. Inactive drilling rigs have been known to be cannibalized to upgrade and repair other ageing rigs. Record keeping is ambiguous and sometimes poor. 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 of December 31, 2012, we had US$430 million of a total of US$700 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, such as the Euro, 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 revenue is denominated in the Russian ruble, some of our costs, including those associated with purchases of foreign manufactured land rigs and certain financings, are denominated in the US dollar and other currencies. In particular, the interest and principal under the Notes are denominated and payable in US dollars, and a depreciation of the Russian ruble against the US dollar could negatively affect our ability to make payments of interest and principal under the Notes when due. Our currency translation gain/(loss) in 2012, 2011 and 2010 was US$0.6 million, US$(11.1) million and US$(7.4) million, respectively. Any significant foreign currency exchange rate fluctuations (both short- and long-term) could have a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

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 Notes.

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 Notes.

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.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which negatively affected Russia's business and investment climate. More recently, following both the Russian parliamentary elections in December 2011 and presidential elections in March 2012, controversy concerning alleged electoral fraud in favor of the current ruling party, United Russia, and the newly elected President, Mr. Vladimir Putin, respectively, as well as criticism towards the political system implemented under Mr. Putin, led to organized political demonstrations. Additionally, the potential for political instability resulting from the recent global financial crisis could negatively impact the economic or political environment in Russia. Renewed protests or future shifts in governmental policy and regulation in the Russian Federation, changes in the Russian government, lack of consensus between the President of Russia, the Russian government, Russia's parliament and powerful economic groups could also lead to political instability and disrupt or reverse political, economic and regulatory reforms, which could negatively impact the value of investments in the Russian Federation or our ability to obtain financing in the international markets, which in turn, could have a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

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 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. 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, results of operations, prospects and the trading price of the Notes being materially adversely affected.

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

Russia is a federation of 83 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 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, in the past, conflicting laws have been enacted in the areas of privatization, securities, corporate legislation, regulation of land use 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 in Russia 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.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases in Southern Russia, military conflict. As a result, a number of fatal terrorist attacks have been carried out in Moscow and other Russian regions. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread, 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 significant disruptions to transmissions.

Russia has been involved in military, political and economic conflicts and tensions with other countries. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in a significant overall price decline for listed Russian securities. The emergence or escalation of any tensions or hostilities in Russia, including terrorist attacks, or with foreign countries could negatively affect the Russian economy. The Russian Law "On Special Economic Measures" No. 281-FZ dated December 30, 2006, 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 any such restrictive economic measures with respect to the countries in which we currently operate and/or plan to operate in the future, or if other countries were to impose similar measures on Russia, this could negatively impact our business in such countries. These uncertainties, tensions and conflicts may lead to reduced liquidity, deterioration in the investment climate, trading volatility, and significant reduction in the prices of listed Russian securities, with a resulting negative effect on the liquidity, ability for Russian companies to raise financing on commercially acceptable terms, and as a result, our business, financial condition, results of operations, prospects and the trading price of the Notes.

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 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, financial condition, results of operations, prospects and the trading price of the Notes.

In the past, Russian authorities have prosecuted some Russian companies, their senior managers and their shareholders on tax evasion and related charges. In some cases, the result of such prosecutions has been the imposition of prison sentences for individuals and/or significant claims for unpaid taxes with respect to companies such as Yukos, TNK-BP and Vimpelcom. Some analysts contend that such prosecutions demonstrate a willingness to reverse key political and economic reforms of the 1990s. Other analysts, however, believe that these prosecutions are 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.

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. 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. The Russian government has recently pursued campaigns against corruption, the results of which are currently uncertain. 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, results of operations, prospects and the trading price of the Notes.

Economic Risks

Economic instability in Russia could adversely affect our business.

Over the last two decades, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- high inflation;
- sudden declines in prices of natural resources;
- growth of black-and-grey-market economics;
- an unstable currency;
- high government debt relative to gross domestic product;

- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- widespread tax evasion;
- high levels of capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- high interest rates and unstable credit conditions;
- a weakly diversified economy, which depends significantly on global prices for raw materials;
- a major deterioration of the physical infrastructure;
- significant increases in unemployment and underemployment; and
- low personal income levels of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In the past few years, the Russian economy has been characterized by volatility in the debt and equity markets, which experienced significant declines in the second half of 2008 and the second half of 2011, continuing in 2012. In 2008, the high degree of volatility caused market regulators to temporarily suspend trading multiple times on the principal Russian securities exchanges, the Moscow Interbank Currency Exchange and Russian Trading System (which have since combined their operations as OAO Moscow Exchange MICEX-RTS). The Russian economy has also been characterized by periodic significant reductions in foreign investment and sharp decreases in GDP. For example, in 2009, Russian GDP declined 7.9%.

In addition, since Russia produces and exports large quantities of crude oil, natural gas and other commodities, its economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in mid-2008 and have since experienced significant decreases, particularly in the price of crude oil, which decreased by approximately 70% in the second half of 2008. Russian banks, and the Russian economy generally, have also been adversely affected by the global financial crisis, from which the Russian economy has not fully recovered. There can be no assurance that any measures adopted by the Government since 2008 to mitigate the effect of the financial and economic crisis will result in a sustainable recovery of the Russian economy. Current macroeconomic challenges, low or negative economic growth in the United States, Japan and Europe and market volatility may prolong the economic crisis. In recent months, global markets have shown increased volatility due to continued macroeconomic challenges. In particular, the recent banking crisis in Cyprus may have an adverse effect on companies which use Cyprus entities in their corporate structures, such as ourselves. The Russian economy remains vulnerable to further external shocks. Events occurring in one geographic or financial market sometimes result in an entire region or class of investments being disfavored by international investors. Russia has been adversely affected by this in the past, and it is possible that the market for Russian investment, including the Notes, will be similarly affected in the future by negative economic or financial developments in other countries. There can be no assurance that recent economic volatility, or a future economic crisis, will not negatively affect investors' confidence in the Russian markets or economy or in the ability of Russian companies to raise capital in the international debt markets, any of which, in turn, could have a material adverse effect on the Russian economy and the Group's business, financial condition and results of operations or prospects or on the value of the Notes. In addition, any declines in the price of crude oil, natural gas or other commodities could further disrupt the Russian economy.

Any deterioration of general economic conditions in Russia could have a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

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.

The deficiencies in the Russian banking sector, combined with the reported deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to the current worldwide credit market downturn and economic slowdown. In the autumn of 2008, the credit crisis that began in the US resulted in decreased liquidity in the Russian credit market and weakened the Russian financial system. Starting from the second half of 2008, the majority of Russian banks experienced difficulties with funding on domestic and international markets, and interest rates increased significantly. Some of the banks were unable to service their obligations and were sold to larger banks. Credit ratings of multiple banks have been lowered. An extended or serious banking crisis or the bankruptcy of a number of Russian banks could have a material adverse effect on the Group's business and its ability to complete banking transactions in Russia.

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 much of it has not been adequately funded and maintained over the last two decades. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. Electricity and heating shortages in some of Russia's regions have seriously disrupted the local economies. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for use and safety. For example, in August 2009, an accident occurred at the Sayano-Shushenskaya Hydroelectric Power Plant, the largest hydro power plant in Russia in terms of installed capacity, when water from the Yenisei River flooded the turbine and transformer rooms at the power plant's dam, killing more than 70 people and causing billions of Rubles in damage. As a result of the accident, the plant has halted power production, leading to severe power shortages for both residential and industrial consumers. Although the accidents mentioned above did not have any effect on our operations, any similar accidents in the regions where we operate could have a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

The Russian government is actively considering plans to reorganize the nation's rail, electricity and other infrastructure facilities. Any such reorganization may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, each of which could have a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

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 often inexperienced in the areas of business and corporate law; judicial precedents generally have no binding effect on subsequent decisions; and many 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, results of operations, prospects and the trading price of the Notes.

Failure to comply with existing laws and regulations or increased government regulation of our operations could result in substantial additional 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 continued 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 impose criminal and administrative penalties against our officers, each of which could materially adversely affect our business, financial condition and results of operations.

The registration of our subsidiaries or transactions which resulted in incorporation of the current ownership structure may be declared null and void by the courts.

As a general rule, under Russian law, neither a limited liability company nor a joint stock company may have as its sole participant or shareholder another "commercial entity" ("*khozyaistvennoye obshestvo*") which is in turn also owned by one legal entity or one person. It is not clear whether this requirement only applies to a structure consisting entirely of Russian entities or whether it would apply as well to a structure consisting of a single Russian entity. As such, it may be determined that a portion of our ownership structure, in particular, the ownership of BKE and SGC-Drilling by a 100%-owned direct subsidiary of the Company, Cypress Oilfield Holdings Ltd, does not comply with this requirement, creating the possibility that the registration of the respective companies, or transactions which resulted in the incorporation of this structure, may be declared null and void by the courts, which could materially adversely affect our business, financial condition and results of operations.

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

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.

Russian legislation generally provides that shareholders in a Russian joint stock company or members of a Russian 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. 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 Notes.

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. Interpretation of existing tax and customs laws by the governmental authorities is often unclear, inconsistent or contradictory and may result in the imposition of conditions, requirements or restrictions not provided for by the existing legislation. Accordingly, few precedents with regard to the interpretation of these laws have been established. In addition, in some past instances, although it may be viewed as contradictory to Russian constitutional law, Russian tax authorities have applied certain tax laws retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period multiple times. In practice, the Russian tax authorities may interpret the tax laws in ways that do not favor taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Furthermore, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. For example, tax laws are unclear with respect to the deductibility of certain expenses. Despite our best efforts to comply with applicable tax laws, these uncertainties could possibly expose us to significant fines and penalties and to potentially severe enforcement measures despite its best efforts at compliance, could result in a greater than expected tax burden and could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and the trading price of the Notes.

The Russian government continues to develop Russian tax legislation. Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. In October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued a resolution concerning judicial practice with respect to unjustified tax benefit. The resolution sought to clarify the difference between acceptable tax planning and tax evasion. In context of this resolution, a tax benefit means a reduction in the amount of a tax liability resulting from a reduction in the tax base, the receipt of a tax deduction or tax concession or the application of a lower tax rate, and the receipt of a right to a refund (offset) or reimbursement of tax. Pursuant to the resolution, a tax benefit may be deemed unjustified if an operation or transaction in which such tax benefit is received lacks a reasonable economic rationale, or if true economic intent of such operation or transaction is inconsistent with the manner in which it has been reported for tax purposes. As a result, a tax benefit cannot be regarded as a business objective. The fact that the same economic result may have been achieved with a lesser tax benefit accruing to the taxpayer does not constitute grounds for a tax benefit to be deemed unjustified. However, the tax authorities have inconsistently interpreted tax regulation in respect of unjustified tax benefit in challenging taxpayers' positions, and may continue using this approach in the future. Although the intention of the resolution was to clarify the definition of acceptable tax planning and curb tax evasion, there can be no assurance that the tax authorities will not seek to apply this concept arbitrarily and not consistently with the intent of the Supreme Arbitration Court.

Since 2006, the Ministry of Finance of the Russian Federation (the "**Ministry of Finance**") has issued a number of guidance letters intending to clarify the meaning of "beneficial ownership of income" as it is applied in respect of international tax treaties. Further, in 2009, the President of the Russian Federation directed the government to seek the introduction of legal mechanisms to reduce the use of international double taxation treaties for improper tax minimization schemes. In December 2011, pursuant to the request of the Federal Tax Service of the Russian Federation (the "**Federal Tax Service**"), the Ministry of Finance issued a guidance letter (letter No. 03-08-13/1 dated December 30, 2011) addressing the taxation of special purpose vehicle companies ("**SPVs**") used in Eurobond offerings. The letter stated that SPVs should not be regarded as beneficial owners of interest paid by the Russian borrowers, because they pass income to the Eurobond holders. According to the Letter, the term "beneficial owner" should not be treated in a narrow technical sense, but the principles of double tax treaties should be taken into account, including the avoidance of treaty shopping and substance over form approach. The legal ownership should not be the only factor for determining eligibility to apply treaty benefits and the actual ability of the receiving party to determine the further "economic destination" of income should be considered as well. According to the position of the Ministry of Finance the income tax rate provided in the double taxation treaty cannot be applied with respect to interest income paid by the borrower to an SPV.

Russian tax legislation regulating transactions with bonds (such as Notes) has recently been changed. Federal Law No. 97-FZ dated June 29, 2012 ("**Law No. 97-FZ**") introduced temporary amendments to the Tax Code exempting Russian borrowers from the obligation to withhold Russian income tax on interest and other payments made in connection with Eurobond transactions where the bonds were issued prior to January 1, 2014. Pursuant to the amendments introduced in Law No. 97-FZ, Russian borrowers are exempt from the obligation to withhold Russian income tax from interest paid on debt obligation originating from the issuance of "tradable bonds" by foreign entities, provided that at the date of the payment of interest the foreign entity, being the issuer of the "tradable bonds", is a tax resident in a jurisdiction that has an effective double tax treaty with Russia, and a respective tax residency certificate is provided by such issuer to the Russian borrower. Pursuant to the amended Tax Code, "tradable bonds" are defined as bonds and other debt instruments listed and/or admitted to circulation on foreign stock exchanges and/or rights to which are recorded by foreign depositary-clearing organizations provided that such foreign stock exchanges and depositary-clearing organizations are approved by the Federal Service for Financial Markets of the Russian Federation (the "**FSFM**"). Prior to approval by the FSFM, the tradable bonds would include bonds and other debt instruments listed and/or admitted to circulation on recognized foreign stock exchanges and/or settled through recognized foreign depository-clearing organizations. Because the Law No.97-FZ affects transactions with bonds issued prior to January 1, 2014, the principles of taxation of interest and other payments under the Notes issued after January 1, 2014 remain uncertain. While tax consequences in this Prospectus include the provisions of current law, additional and potentially significant changes to Russian law may still be introduced in the future.

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 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, prospects and the trading price of the Notes could be materially adversely affected.

We are subject to tax audits by the Russian tax authorities, which may result in additional tax liabilities

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. Such audits may also impose additional burdens on us by diverting the attention of management resources.

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 owed 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 RUB 22 billion, bringing the total claim against TNK-BP for 2001 to RUB 26 billion, and Sibneft, another oil company, received a back tax claim for RUB 21 billion. There can be no assurance that the Russian tax authorities will not become more intrusive and aggressive in respect of future tax audits. All of these factors could have a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

Current Russian thin capitalization rules could affect the ability of Russian subsidiaries to deduct interest on certain borrowings and give rise to a withholding income tax liability on excess interest reclassified into dividends.

Russian tax legislation includes thin capitalization rules which limit the amount of interest that can be deducted by Russian companies of the Group for corporate income tax purposes on "controlled" debt. "Controlled" debt is broadly a debt provided to a Russian company by a foreign shareholder owning directly or indirectly more than 20 percent of the share capital of the Russian company, by another Russian company that is affiliated with such foreign shareholder as well as loans secured by such foreign shareholder or its affiliated Russian company. Currently, the practical implementation of these rules by the tax authorities is quite inconsistent due to different clarifications issued by the regulatory authorities, especially regarding guarantees issued with respect to loans provided by third parties.

There is also an emerging trend of change in arbitration court practice regarding two issues relating to the "thin capitalization" rules: the possible application of these rules where a loan was granted by a foreign "sister" company and it is proved that the actual lender was the foreign parent company (i.e., the indebtedness under the loan should be treated as controlled) and the possible application of these rules even where the relevant double tax treaty includes non-discrimination provisions.

Russian subsidiaries of the Group may be affected by thin capitalization rules if the above criteria are met. In this event, the interest payments made by such companies relating to the controlled debt may be treated as dividend payments, which are not deductible for corporate income tax purposes and are subject to withholding income tax at the rates applicable to dividends. As a result, an additional tax burden could be imposed on us, which could have a material adverse effect on our business, financial condition, results of operation, prospects and the trading price of the Notes.

Russian transfer pricing legislation may require pricing adjustments and impose additional tax liabilities with respect to all controlled transactions.

On January 1, 2012, new Russian transfer pricing legislation came into effect. Although the new legislation is supposed to be in line with international transfer pricing principles developed by the Organization for Economic Co-operation and Development (the "**OECD**"), there are certain significant differences of how these principles are reflected in the local rules. Due to limited formal guidance and absence of relevant court practice there is uncertainty relating to the application of the new transfer pricing legislation by the Russian tax authorities.

The new legislation has considerably increased the compliance burden for the taxpayers compared to the law which was in effect before 2012 due to, inter alia, shifting the burden of proving market prices from the Russian tax authorities to the taxpayer. This legislation entitles the tax authorities to apply transfer pricing adjustments and impose additional tax liabilities in respect of transactions which are considered "controlled" for the transfer pricing purposes. In particular, "controlled" transactions include, among others, all cross-border transactions with related parties. The taxpayers are obliged to notify the Russian tax authorities of "controlled" transactions and to prepare and retain documentation evidencing that such transactions have been entered into on arm's-length terms.

The rules are expected to result in more stringent tax authorities supervision over the transfer pricing rules as well as new reporting and documentation requirements. Currently, the new transfer pricing rules contain a number of ambiguous rules, which may be subject to arbitrary interpretation by the Russian tax authorities. There are neither official clarifications nor established administrative and court practice of applying the new transfer pricing rules. Arbitrary interpretation of the new transfer pricing rules by the Russian tax authorities may expose us to enforcement measures as well as significant fines and penalties. If additional tax liabilities are imposed, it could have a material adverse effect on our business, financial condition, results of operations, prospects and the trading price of the Notes.

Risks Relating to the Issuer and the Notes

The Issuer is subject to risks related to the location of its center of main interest, the appointment of examiners and the claims of preferred creditors under Irish Law.

COMI

The Issuer has its registered office in Ireland. As a result, there is a rebuttable presumption that its center of main interests ("**COMI**") is in Ireland and consequently that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice (the "**ECJ**") in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of May 29, 2000 on Insolvency Proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect." As the Issuer has its registered office in Ireland, has a majority of Irish directors, is registered for tax in Ireland and has an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it is asked to make that decision.

Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular, under Irish law, the claims of unsecured creditors of the Issuer rank behind other creditors (including fees, costs and expenses of any examiner appointed, certain capital gains tax liabilities and claims of the Irish Revenue Commissioners for certain unpaid taxes).

Examinership

Examinership is a court procedure available under the Companies (Amendment) Act 1990, as amended to facilitate the survival of Irish companies in financial difficulties. The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances, a negative pledge given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the High Court of Ireland (the "**High Court**") when a minimum of one class of creditors, whose interests are impaired under the proposals, has (i) voted in favor of the proposals and (ii) the High Court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and (iii) whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

If an examiner were appointed while any amounts due from the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

- the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership;
- a scheme of arrangement may be approved involving the writing down of the debt due from the Issuer to the Noteholders irrespective of the Noteholders' views;
- the examiner may set aside the negative pledge in the Notes prohibiting the creation of security or the incurrence of borrowings by the Issuer to enable the examiner to borrow to fund the Issuer during the protection period;
- in the event that a scheme of arrangement is not approved and the Issuer subsequently goes into liquidation, both the examiner's and liquidator's remuneration and expenses (including certain borrowings incurred by the examiner on behalf of the Issuer and approved by the High Court) will take priority over the monies and liabilities which from time to time are or may become due, owing or payable by the Issuer to the Noteholders under the Notes or the transaction documents in connection therewith;
- while a company is under the protection of the Court, no action can be taken to enforce guarantees against persons who have guaranteed the debts of the company. Whether this prohibition under Irish law would be effective in the pursuit of a foreign guarantee is a matter of the governing law of the guarantee and/or the guarantor's residence; and
- where a creditor receives notice of a meeting of creditors convened by the examiner to consider and vote on his proposals for a scheme of arrangement and that creditor's debt is guaranteed by a third party, then the creditor must, within very tight deadlines, offer the guarantor the opportunity to attend and vote at the meeting in place of the creditor. If this offer is not made in writing within the statutory time period, the creditor loses its right to pursue the guarantor pursuant to the guarantee.

A derogation has been granted by the Central Bank of Ireland in relation to the inclusion in this Prospectus of financial statements for two of the Guarantors, BKE and SGC-Drilling.

Under Annex VI of the European Commission Regulation (EC) No 809/2004, a guarantor must disclose information about itself as if it were the issuer of that same type of security that is the subject of the guarantee. This normally requires the inclusion of a guarantor's individual financial statements in the prospectus relating to such securities. The Issuer has applied to the Central Bank of Ireland for a derogation from the requirement for each of BKE and SGC-Drilling to include their individual financial statements in this Prospectus. Under Regulation 25(c) of the Prospectus (Directive 2003/71/EC) Regulations 2005, the Central Bank of Ireland has granted such a derogation. The equivalent information is included in Consolidated Financial Statements for the Group which are set out on pages F-2 to F-32 of this Prospectus.

Investors may have limited recourse against us, our directors and executive officers because we conduct our operations outside the United States and most of our current directors and executive officers reside outside the United States.

The Issuer's and the Guarantors' presence outside the United States may limit investors' legal recourse against the Issuer and the Guarantors. The Issuer is a private limited company incorporated under the laws of Ireland and the Guarantors are incorporated under the laws of the Russian Federation or the Cayman Islands. Most of the

Issuer's and the Guarantors' directors and executive officers named in this Prospectus reside outside the United States. All or a substantial portion of the Guarantors' assets and the assets of the Guarantors' officers and directors are also located principally in Russia or other countries of the Commonwealth of Independent States. As a result, it may not be possible for investors to effect service of process upon such persons in the United States or to enforce judgments obtained in foreign courts.

There is no bilateral treaty between the Cayman Islands and the United States or any multi-lateral treaty to which the Cayman Islands and the United States are a party in respect of the recognition and enforcement of judgments obtained in US courts. In addition, there is no statutory enforcement in the Cayman Islands of judgments obtained in English or US courts. 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 judgment of a foreign court at common law, without re-examination of the merits, by an action commenced on the foreign judgment in the Grand Court of the Cayman Islands provided such foreign judgment (1) is one in respect of which the foreign court had jurisdiction over the defendant according to Cayman Islands conflict of law rules, (2) is final and conclusive, (3) is a judgment in personam and not in rem, (4) is not in respect of taxes or a fine or other penalty or similar fiscal or revenue obligations, and (5) is not impeachable for fraud or because its enforcement would be contrary to Cayman Islands public policy or because it was obtained in breach of natural justice. 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.

Russia is not a party to treaties for the mutual enforcement of court judgments with most Western countries. Consequently, if a judgment is obtained from a court in any such jurisdiction, it is highly unlikely to be given direct effect in Russian courts. However, Russia (as a successor to the Soviet Union) is a party to the New York Convention. A foreign arbitral award obtained in a state which is a party to the New York Convention should be recognized and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and in compliance with Russian civil procedure and other procedures and requirements established by Russian legislation). The Arbitration Procedural Code of the Russian Federation is in conformity with the New York Convention and thus has not introduced any substantial changes relating to the grounds for refusing to recognize and enforce foreign arbitral awards and court judgments. Nonetheless, in practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing substantial delay, difficulty and uncertainty into the process of enforcing any foreign judgment or any foreign arbitral award in Russia.

These limitations may deprive investors of effective legal recourse for claims related to their investment in the Notes.

We will have the ability to incur substantially more debt.

Although there is a restriction on the incurrence of indebtedness in Condition 4.2, we will be able to incur substantially more debt than we will have on the Issue Date in the future. The limitations on incurrence of indebtedness in the Terms and Conditions permit the Issuer, the Guarantors and other subsidiaries of the Group to borrow additional amounts, subject to Condition 4.2. In addition, debt permitted to be incurred by our subsidiaries may be structurally senior to the Notes and may be secured. If new debt, in particular secured or structurally senior debt, is added to our current debt levels, the magnitude of the risks related to the Group's indebtedness described above could increase, and the foregoing factors could have an adverse effect on the Issuer's and the Guarantors' ability to pay amounts due in respect of the Notes.

Secured indebtedness of the Guarantors is senior to the Guarantees.

As of December 31, 2012, the Guarantors had an aggregate amount of US$20.2 million of secured indebtedness. All of the Guarantors' secured indebtedness is effectively senior to their obligations under the Guarantees, since the Guarantees and the Notes they guarantee are unsecured. As a result, if we default on the Notes and this default triggers an event of default under any of the Guarantors' secured indebtedness, holders of the Guarantors' secured indebtedness will have priority over the Noteholders if they pursue rights under the Guarantees to the extent of the value, validity and priority of the liens on the assets securing such indebtedness. In addition, the Guarantors have a significant amount of unsecured indebtedness that ranks equally in right of payment with the

Notes. As of December 31, 2012, the aggregate principal of the Guarantors' total outstanding unsecured indebtedness was approximately US$433.3 million. Subsequent to December 31, 2012, there have been changes in certain of our secured and unsecured indebtedness. For information regarding these changes, please refer to the sections of this Prospectus entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Financing activities."

Your right to receive payments on the Notes is structurally subordinated to indebtedness of our subsidiaries other than the Guarantors.

The Guarantors will guarantee the Notes, but the Notes will not be guaranteed by any of our other subsidiaries. Our consolidated subsidiaries (other than the Guarantors) are the primary or sole obligors on US$246.3 million, or approximately 35.2%, of our total debt as of December 31, 2012, and there can be no assurance that the amount of such debt will not increase. In general, claims of a subsidiary's creditors, including trade creditors, secured creditors and unsecured creditors holding indebtedness and guarantees issued by such subsidiary, will have priority with respect to the assets and earnings of that subsidiary over the claims of the creditors of its parent company as a shareholder, except to the extent that the parent company is a valid creditor of that subsidiary. The Notes, therefore, will effectively be structurally subordinated to creditors, including trade creditors, of each of our subsidiaries (other than the Guarantors).

The claims of Noteholders may be limited in the event that we or any of our operating subsidiaries are declared bankrupt.

Russian bankruptcy laws often differ from bankruptcy laws of the United States and many other jurisdictions, and are subject to varying interpretations. It is difficult to predict how claims of the Noteholders against us or any of our operating subsidiaries would be resolved in the event of bankruptcy. In the event of bankruptcy, our obligations to the Noteholders could be subordinated to the following obligations:

- workplace injury obligations;
- severance pay and employment related obligations;
- secured creditors;
- tax and other payment obligations to the government; and
- liabilities arising from the liquidation of the estate.

In the event of our insolvency, Russian bankruptcy laws may adversely affect our ability to make payments to the Noteholders.

We cannot assure you that an active trading market will develop for the Notes.

There is no existing market for the Notes and there can be no assurance that a market for the Notes will develop in the future. The Notes have not been registered under the Securities Act or any US state securities laws and may not be offered or sold except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. Although we have applied to list the Notes on the Irish Stock Exchange, we cannot assure you that an active trading market for the Notes will develop. We do not know the extent to which investor interest will lead to the development of an active trading market or how liquid that market might be, nor can we make any assurances regarding the ability of Noteholders to sell their Notes or the price at which the Notes might be sold. As a result, the market price of the Notes could be adversely affected.

The market price of the Notes may be volatile.

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in our own and our competitors' operating results, adverse business developments, changes to the regulatory environment in which we operate, changes in financial estimates by securities analysts, and the actual or expected sale of a large number of Notes, as well as other factors. Historically, the market for non-investment grade debt, such as the Notes, has been subject to disruptions that have caused substantial volatility in the prices of such securities. Any such disruptions may harm the Noteholders. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations that, if repeated in the future, could adversely affect the market price of the Notes without regard to our results of operations, prospects or financial condition. In this context, future terrorist attacks in the United States, such as those of September 11, 2001, or elsewhere, such as those of March 11, 2004 in Spain, July 7, 2005 in the United Kingdom and terrorist attacks that have occurred in Russia, any worldwide developments responding to any terrorist attacks, and continued tension in the Middle East, though not directly affecting us or our operations, could produce sustained pressure on the global financial markets and worldwide economic trends.

Certain transactions contemplated in connection with the Offering of the Notes could constitute prohibited transactions under ERISA.

The United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), and the United States Internal Revenue Code of 1986, as amended (the "**Code**"), set forth certain restrictions on employee benefit plans and certain other plans and entities. Certain transactions contemplated in connection with the offering of the Notes could be deemed to constitute direct or indirect prohibited transactions under Section 406 of ERISA or Section 4975 of the Code. A prohibited transaction may result in an excise tax, penalty or other liabilities under ERISA or the Code, unless exemptive relief is available. Your attention is drawn to the section of this Prospectus entitled "Certain ERISA Considerations," in which any purchaser or subsequent transferee of Notes is deemed to have made representations that either (i) it is not and for so long as it holds a Note (or any interest in a Note) will not be (and is not acquiring the Notes or any interests therein directly or indirectly with the assets of a person who is or while the Notes or interests therein are held will be) a Plan (as defined herein under "Certain ERISA Considerations") or a governmental or other employee benefit plan which is subject to any US federal, state or local law, or non-US law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (ii) its purchase and holding of the Notes (or any interests therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, any such substantially similar US federal, State or local law, or non-US law).

Payments under the Guarantees given by BKE and SGC-Drilling may become subject to Russian withholding income tax or Russian personal income tax, as applicable.

Payments of interest on the Notes to non-resident Noteholders, which are non-resident legal entities and which hold and dispose of the Notes other than through a permanent establishment in Russia, made by the Russian Guarantors, BKE and SGC-Drilling, pursuant to the Guarantees may be deemed Russian sourced income and may be subject to withholding income tax, unless such withholding income tax is reduced or eliminated pursuant to the terms of an applicable double taxation treaty. The Russian Tax Code, as amended by Law No. 97-FZ, exempts Russian legal entities from the obligation to withhold income tax from any payments made to non-resident legal entities without permanent establishment in Russia, including those made under guarantees provided by Russian legal entities on debt obligations and/or originated from "tradable bonds." This exemption applies to "tradable bonds" issued prior to January 1, 2014.

Therefore, we believe that the Russian Guarantors should be exempt from the obligation to withhold income tax in Russia with respect to any payments under the Guarantees to non-resident Noteholders which are legal entities under the Notes issued prior to January 1, 2014. However, if the Russian Guarantors make such payments under the Guarantees to non-resident Noteholders which are non-resident legal entities without permanent establishment in Russia with respect to the Notes issued after January 1, 2014, then such payments may be subject to Russian withholding income tax. In the event that a payment under the Guarantees is made to a non-resident individual, there is a risk that such payment could become subject to Russian personal income tax, unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty. There can be no assurance that such withholding tax would not be imposed upon the full payment under the Guarantees, including with respect to the principal amount of the Notes.

Pursuant to Condition 8.1, in the event of a withholding or deduction for, or on account for, any present or future taxes, duties, assessments or governmental charges, the Issuer or (as the case may be) the relevant Guarantor shall account to the relevant tax authorities for the amount so required to be withheld or deducted and increase the relevant payment so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required. According to the clarifications issued by the Russian fiscal authorities, payments in compensation of taxes paid or to be paid by other taxpayers are in direct conflict with the Russian tax legislation. Moreover, Russian tax legislation provides that a tax agent is not able to pay withholding tax from its own funds. According to clarifications of the Russian fiscal authorities, where withholding tax is paid at the expense of the tax agent, additional amounts received by the foreign recipient should also be subject to Russian withholding tax. Therefore, should the tax authorities consider an increased amount of payment under any of the Guarantees as related to compensation of withholding taxes, these amounts payable by BKE or SGC-Drilling, respectively, will likely be considered as non-deductible for income tax purposes for the Guarantors. Moreover, there can be no assurance that such obligation to pay the additional amounts associated with the withholding tax will be enforceable under Russian law.

Russian withholding tax may be reduced under an applicable double tax treaty to which Russia is a party, but obtaining advance relief or a refund may be cumbersome. If any payments made by a Russian Guarantor pursuant to a Guarantee becomes subject to Russian withholding income tax, it could cause us to incur additional costs in relation to the Notes, which may have an adverse effect on our business, financial condition and results of operations. See "Taxation — Russian Taxation."

Noteholders may be subject to withholding tax in EU Member States that have opted for a withholding system under the EU Savings Directive.

Under Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), each EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other EU Member State. However, for a transitional period, Austria and Luxembourg will (unless during such period they elect otherwise) instead operate a withholding system in relation to such payments. Under such a withholding system, the recipient of the interest payment must be allowed, upon meeting certain conditions, to elect that certain provision of information procedures should be applied instead of withholding. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain EU Member States have adopted or agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to an individual beneficial owner resident in, or certain limited types of entity established in, an EU Member State. In addition, the EU Member States have entered into provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in an EU Member State to an individual beneficial owner resident in, or certain limited types of entity established in, one of those countries or territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisors.

If an amount of, or in respect of, tax were to be withheld from a payment under a Note pursuant to the EU Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meetings of November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts under the terms of such Note as a result of the imposition of such withholding tax. See Condition 8 in "Terms and Conditions of the Notes." The Issuer is, however, required to maintain a Paying Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing the EU Savings Directive or any other such Directive. See Condition 7.6 in "Terms and Conditions of the Notes."

The Notes are subject to restrictions on transfer.

The Notes are being offered and sold in the United States in reliance on Rule 144A to purchasers who are QIBs and outside the United States in reliance on Regulation S. Each purchaser of Notes pursuant to Rule 144A will be deemed to have represented to the Issuer that it is a QIB. Each purchaser of the Notes pursuant to Regulation S will be deemed to have represented to the Issuer that it is not a US person within the meaning of Regulation S and is not acquiring Notes for the account or benefit of any US person and that it is purchasing the Notes in an offshore transaction within the meaning of Regulation S. See "Transfer Restrictions, Clearing and Settlement."

THE OFFERING

The following is an overview of the terms of the Notes. This overview is extracted from, and should be read in conjunction with, the full text of the Terms and Conditions of the Notes and the Trust Deed constituting the Notes, which prevail to the extent of any inconsistency with the terms set out in this overview. Capitalized terms used herein and not otherwise defined have the respective meanings given to such terms in the Terms and Conditions of the Notes.

Issuer	EDC Finance Limited, a company incorporated under the laws of Ireland.
Guarantors	Eurasia Drilling Company Limited, a Cayman Islands exempted company incorporated with limited liability; OOO Burovaya Kompaniya Eurasia, a Russian limited liability company; and OOO SGC-Drilling, a Russian limited liability company. The Guarantors collectively generated 86.2% of the Group's consolidated revenue and 80.2% of the Group's EBITDA for the year ended December 31, 2012, and collectively held 84.1% of the Group's consolidated total assets and 84.9% of the Group's consolidated net assets as of December 31, 2012. The non-Guarantor subsidiaries of the Group collectively generated 13.8% of the Group's consolidated revenue and 19.8% of the Group's EBITDA for the year ended December 31, 2012, and collectively held 15.9% of the Group's consolidated total assets and 15.1% of the Group's consolidated net assets as of December 31, 2012. The above percentages are based on the Group's audited consolidated financial statements for the year ended December 31, 2012. The Guarantors collectively generated 84.6% of the Group's consolidated revenue and 77.5% of the Group's EBITDA for the year ended December 31, 2011, and collectively held 80.3% of the Group's consolidated total assets and 80.9% of the Group's consolidated net assets as of December 31, 2011. The non-Guarantor subsidiaries of the Group collectively generated 15.4% of the Group's consolidated revenue and 22.5% of the Group's EBITDA for the year ended December 31, 2011, and collectively held 19.7% of the Group's consolidated total assets and 19.1% of the Group's consolidated net assets as of December 31, 2011. The above percentages are based on the Group's audited consolidated financial statements for the year ended December 31, 2011. If the aggregate total assets of the Guarantors (calculated on an unconsolidated basis) should fall below 75% of the Group's total assets, or the EBITDA of the Guarantors (calculated on an unconsolidated basis) should fall below 75% of the Group's EBITDA, then the Company will cause additional subsidiaries of the Company to provide further guarantees.
Issue Amount	US$600,000,000 aggregate principal amount of the Notes.
Joint Lead Managers	Goldman Sachs International, Merrill Lynch International and SIB (Cyprus) Limited.
Issue Price	100% of the principal amount of the Notes.
Closing Date	April 17, 2013.
Maturity Date	April 17, 2020.

Trustee	Citibank, N.A., London Branch.
Principal Paying and Transfer Agent	Citibank, N.A., London Branch.
Registrar	Citigroup Global Markets Deutschland AG.
Interest	The Notes will accrue interest from the date of their issuance at 4.875% per annum, payable semi-annually in arrear on April 17 and October 17 of each year, commencing on October 17, 2013.
Form	The Notes will be issued in registered form. The Notes will be in denominations in aggregate principal amount of US$200,000 each and integral multiples of US$1,000 thereafter and will be represented by global note certificates. The global note certificates will be exchangeable for Notes in individual form in the limited circumstances specified in the global note certificates.
Status of the Notes	The Notes will constitute direct, unsubordinated and (subject to Condition 4.1 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and shall at all times rank *pari passu* in right of payment and rateably without any preference among themselves.
Guarantees	Each of the Guarantors has, pursuant to the Guarantees, unconditionally and irrevocably, and jointly and severally, guaranteed the payment when due of all sums expressed to be payable by, and all other obligations of, the Issuer under the Trust Deed and the Notes. The Guarantees constitute direct, unsubordinated and (subject to Condition 4.1 of the Terms and Conditions of the Notes) unsecured obligations of each of the Guarantors.
Use of Proceeds	The underwriting commissions, fees and expenses associated with the Offering are estimated to be approximately US$5.4 million. The Group expects the aggregate net proceeds of the issuance of the Notes to be approximately US$594.6 million. The Group will use the aggregate net proceeds from the issuance of the Notes for the repayment of its US$220 million credit facility with Raiffeisenbank and for general corporate purposes.
Redemption for Tax Reasons	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, at 100% of the principal amount thereof together with interest accrued to the date fixed for redemption including any additional amounts due under Condition 6.2 of the Terms and Conditions of the Notes if it becomes obliged to pay additional amounts as provided or referred to in Condition 8.1, or if the Guarantors are unable to procure payment by the Issuer and in making payment themselves, any of the Guarantors would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of Ireland, the Cayman Islands or the Russian Federation occurring on or after the Issue Date. See "Terms and Conditions of the Notes — Redemption and Purchase — Redemption for tax reasons."
Covenants	The Terms and Conditions of the Notes contain restrictions on certain activities of the Issuer, the Guarantors and certain subsidiaries of the Group (the "**Subsidiaries**", as defined in the Terms and Conditions of the Notes), including: (i) a negative pledge; (ii) a limitation on indebtedness;

(iii) a limitation on mergers;

(iv) a limitation on disposals;

(v) a requirement for the provision of certain financial information;

(vi) requirements for the payment of taxes and other claims;

(vii) requirements for the maintenance of authorizations;

(viii) requirements for the maintenance of property;

(ix) requirements for the maintenance of insurance;

(x) a limitation on change of business;

(xi) a requirement for compliance with environmental laws; and

(xii) a requirement for maintenance of *pari passu* ranking.

There are significant exceptions to the requirements contained in these covenants. See "Terms and Conditions of the Notes — Covenants" for a further description of the restrictions set forth above.

The Terms and Conditions of the Notes provide that the covenants referred to in paragraphs (ii), (iv), (vi), (vii), (viii), (ix) and (xi) above shall be suspended during any period (if any) during which the Notes have Investment Grade Status and no Event of Default has occurred and is continuing. If the Notes cease to have an Investment Grade Rating, such suspended covenants shall again apply to the Notes. See "Terms and Conditions of the Notes — Covenants — Covenant Suspension."

Events of Default .... In the case of an Event of Default as defined in the "Terms and Conditions of the Notes" section of this Prospectus, the Trustee may, subject as provided in the Trust Deed, give notice to the Issuer and the Guarantors that the Notes are immediately due and repayable. Events of Default include:

(i) failure by the Issuer or, as the case may be, the Guarantors to pay any amounts due under the Notes;

(ii) breach of other obligations by the Issuer or any of the Guarantors under the Notes, the Trust Deed or the Guarantees;

(iii) cross-default (for a payment default) or cross-acceleration (for all other defaults) of the Issuer, any of the Guarantors or any other Subsidiary;

(iv) non-compliance by the Issuer, any of the Guarantors or any other Subsidiary with an order or judgment of a judicial or administrative authority;

(v) inability of the Issuer, any of the Guarantors or any other Subsidiary to pay debts as they fall due;

(vi) certain events relating to liquidation, examinership, insolvency, winding up or dissolution (as applicable) of the Issuer, any of the Guarantors or any other Subsidiary;

(vii) expropriation, attachment, sequestration, execution or distress in respect of the Issuer, any of the Guarantors or any other Subsidiary;

(viii) unenforceability or illegality; and

(ix) nationalization or seizure of the assets of the Issuer, any of the Guarantors or any Material Subsidiary,

	in certain cases, subject to certain conditions and exceptions as set out in "Terms and Conditions of the Notes — Events of Default."
Rating	The Notes are expected to be rated BB+ by S&P and BB(EXP) by Fitch. Credit ratings assigned to the Notes do not necessarily mean they are a suitable investment for you. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. Similar ratings on different types of Notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes, the Issuer or the Guarantors could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The Issuer consulted two rating agencies regarding the potential provision of ratings for the Notes. Based on preliminary feedback from these rating organizations in March 2013, the Issuer requested S&P and Fitch to issue such ratings. If the other rating organization rated the securities, we cannot assure you that the rating that such other rating organization would assign to the securities would not be lower than the ratings assigned by S&P and Fitch. Ratings of the Notes by S&P and Fitch are not necessarily indicative of the ratings that may in the future be issued in respect of the Notes by other rating agencies, if requested by the Issuer. The Company recommends that you analyze the significance of each rating independently from any other rating. Each of S&P and Fitch are established in the European Union and registered in accordance with the CRA Regulation.
Withholding Tax	All payments on the Notes or under the Guarantees by or on behalf of the Issuer or the Guarantors shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatsoever nature, unless such withholding or deduction is required by applicable laws or regulations. If any such withholding or deduction for or on account of taxes of Ireland, the Cayman Islands, the Russian Federation or any other Relevant Jurisdiction is so required, the Issuer or (as the case may be) the Guarantors shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them in respect of such Notes or Guarantees if no such withholding or deduction had been made or required to be made. See "Terms and Conditions of the Notes — Taxation."
Listing	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and for the Notes to be admitted to trading on the Main Securities Market. No assurance can be given that the application will be granted.
Transfer Restrictions	The Notes and the Guarantees have not been and will not be registered under the Securities Act and, subject to certain exceptions, the Notes may not be offered or sold within the United States. The Notes may be sold in other jurisdictions only in compliance with applicable laws. See the sections of this Prospectus entitled "Subscription and Sale" and "Transfer Restrictions, Clearing and Settlement."

Governing Law	The Notes, the Trust Deed and the Agency Agreement, and any non-contractual obligations arising out of or in connection with them, will be governed by English law.
Security Codes	Unrestricted Notes: ISIN: XS0918604496 Common Code: 091860449 Restricted Notes: ISIN: US26832KAA25 Common Code: 091869357 CUSIP: 26832KAA2
Clearing	Euroclear and Clearstream, Luxembourg (in the case of the Unrestricted Notes) and DTC (in the case of the Restricted Notes).
Yield	The annual yield of the Notes upon issue will be 4.875%. The annual yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

USE OF PROCEEDS

After deduction of underwriting commissions, fees and expenses relating to the Offering, we will receive net proceeds from the Offering of approximately US$594.6 million. We intend to use the net proceeds from the Offering for the repayment of our US$220 million credit facility with Raiffeisenbank and for general corporate purposes.

CAPITALIZATION

The following table sets forth the Group's combined capitalization on an actual basis as of December 31, 2012. This table should be read 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.

	As of December 31, 2012
	(in thousands of US$)
Short-term debt and current portion of long-term debt	257,860
Long-term debt (excluding current portion of long-term debt)	442,013
Total debt	**699,873**
Equity	
Common stock	1,469
Treasury stock	(1,652)
Additional paid-in capital	684,398
Retained earnings	1,072,369
Accumulated other comprehensive income/(expense)	(93,958)
Total equity	**1,662,626**
Total capitalization	**2,362,499**

Other than the changes in certain of our other outstanding indebtedness subsequent to December 31, 2012, described in the section of this Prospectus entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments", there have been no material changes to the capitalization of the Group since December 31, 2012.

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, 2012, 2011 and 2010. The financial information as of and for the years ended December 31, 2012, 2011 and 2010 was derived from, and should be read in conjunction with, the Consolidated Financial Statements, prepared in accordance with US GAAP, and included elsewhere in this Prospectus. 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."

	Year ended December 31,		
	2012	2011	2010
	(in thousands of US$)		
Consolidated statement of income data			
Drilling and related services	3,222,830	2,734,444	1,808,905
Other sales and services	14,503	32,305	13,275
Total revenues	**3,237,333**	**2,766,749**	**1,822,180**
Cost of services, excluding depreciation and taxes	(2,151,336)	(1,906,256)	(1,204,333)
General and administrative expenses, excluding depreciation and taxes	(161,270)	(144,614)	(106,920)
Taxes other than income taxes	(134,733)	(119,181)	(72,547)
Depreciation	(249,987)	(213,492)	(144,241)
(Loss) gain on disposal of property, plant and equipment	4,786	(1,362)	6,344
Impairment loss	—	(1,296)	(7,096)
Income from operating activities	**544,793**	**380,548**	**293,387**
Interest expense	(53,661)	(52,342)	(15,125)
Interest income	12,094	11,485	7,993
Currency translation gain (loss)	631	(11,054)	(7,355)
Gain on business exchange transaction	—	32,284	557
Other income (expenses)	(8)	6,495	(951)
Income before income taxes	**503,849**	**367,416**	**278,506**
Income tax expense	(121,840)	(84,045)	(71,680)
Net income	**382,009**	**283,371**	**206,826**

	As of December 31,		
	2012	2011	2010
	(in thousands of US$)		
Consolidated balance sheet data			
Total current assets	1,099,372	1,158,606	1,076,806
Total assets	3,035,055	2,603,816	1,953,807
Total current liabilities	822,179	660,763	451,286
Total liabilities	1,372,429	1,299,472	769,286
Total stockholders' equity	1,662,626	1,304,344	1,184,521
Total liabilities and stockholders' equity	3,035,055	2,603,816	1,953,807

	Year ended December 31,		
	2012	2011	2010
	(in thousands of US$)		
Consolidated cash flow data			
Cash and cash equivalents at beginning of period	509,781	629,466	433,724
Net cash provided by operating activities	592,455	425,729	322,553
Net cash used in investing activities	(617,922)	(848,865)	(325,190)
Net cash provided by financing activities	(197,140)	347,340	206,188
Cash and cash equivalents at end of period	305,333	509,781	629,466

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 years ended December 31, 2012, 2011 and 2010 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

We are the largest provider of onshore drilling services in Russia, as measured by the number of meters drilled, according to REnergyCo. We also provide offshore drilling services in the Caspian Sea and are the largest provider of such services in the sectors where we operate, based on the number of jack-up drilling rigs, according to Wood Mackenzie. 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. In addition, we provide onshore drilling services in Iraq. Our total land fleet consists of 670 onshore drilling, sidetracking and workover rigs and our offshore fleet consists of two jack-up rigs.

For the year ended December 31, 2012, we had total revenue of US$3,237 million, EBITDA of US$790 million and net income of US$382 million, compared to total revenue of US$2,767 million, EBITDA of US$603 million and net income of US$283 million for the year ended December 31, 2011 and total revenue of US$1,822 million, EBITDA of US$437 million and net income of US$207 million for the year ended December 31, 2010.

Our business is currently organized into two main divisions: onshore and offshore drilling services. For the year ended December 31, 2012, we had total revenue of US$3,071 million from our onshore division and total revenue of US$166 million from our offshore division.

For the year ended December 31, 2012, we had an estimated market share of approximately 29% of the onshore drilling services market in Russia, as measured by the number of meters drilled, compared to 25% for the year ended December 31, 2011, according to REnergyCo. Our onshore fleet of 253 land drilling and sidetracking rigs are located in all major Russian oil and gas producing regions, including Western Siberia, Volga-Urals, Eastern Siberia and Timan Pechora. In all these regions we have well-established land support bases. We have expanded our Russian onshore drilling business organically since acquiring substantially all of LUKOIL's onshore drilling assets in 2004. Since our entry into the onshore drilling services, we have transformed the business from an in-house cost center to a major independent oilfield service provider with sound finances and materially improved operating efficiency. 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 6,400 meters. In addition, we provide a wide range of onshore workover and sidetracking services. As of December 31, 2012 our total workover fleet consisted of 413 workover rigs.

In April 2011, we entered into a strategic alliance in Russia and the CIS with Schlumberger, pursuant to which Schlumberger became our preferred supplier for certain drilling services for a five-year period. The transaction also involved an asset swap where we acquired Schlumberger's drilling, sidetracking and workover assets in Russia and sold them certain of our non-core drilling businesses and assets to streamline our services portfolio. The transaction positively contributed to our operational and financial results.

Our customers include a number of major Russian and international oil and gas companies operating in Russia, such as LUKOIL, Rosneft, Gazprom Neft, TNK-BP, Repsol, Arctic Gas, Rusvietpetro, Pechoraneft, Russneft and Tomskneft.

We entered the international drilling market outside the CIS for the first time in the second half of 2012. We acquired three land drilling rigs from an existing drilling contractor and late in 2012 added a fourth rig in Iraq. All four rigs are contracted to international oil and gas companies, Afren, Gulf Keystone, HKN and Marathon Oil.

For the year ended December 31, 2012, we operated two of the three jack-up rigs operating in the Russian, Kazakh and Turkmen sectors of the Caspian Sea, according to Wood Mackenzie. We entered the offshore drilling business in 2006 by acquiring the *ASTRA* jack-up rig from LUKOIL. Since 2009, we have provided our drilling services on LUKOIL's marine ice-resistant fixed platform LSP-1 on the Yuri Korchagin field in the Russian sector of the Caspian Sea. In 2011, we acquired our second jack-up rig, the *SATURN,* from Transocean. Our offshore drilling services division constructs oil and gas exploration and production wells in waters with depths of up to 107 meters. In addition, we have two new-build jack-up rigs that are in the process of being constructed by Lamprell plc, the *NEPTUNE* and the *MERCURY* rigs, with delivery scheduled for the third quarter of 2013 and the fourth quarter of 2014, respectively.

Our offshore customers in the Caspian Sea have included LUKOIL, Petronas, Dragon Oil, CMOC (a joint venture between Shell, KazMunayTeniz and the Oman Pearls Company Ltd) and the N Operating Company (a joint venture between KazMunayGas, ConocoPhillips and Mubadala).

Certain Factors Affecting our Results of Operations

Macroeconomic Factors Affecting Oil Companies' Capital Expenditure Programs

Our results of operations are dependent on the business cycles of our customers in the oil and gas sector and, more specifically, on their planned capital expenditure programs and their ability to execute them. Oil and gas companies rely on their cash flows from operating activities to finance significant portions of their capital expenditures. Such cash flows depend heavily on the global prices for crude oil and natural gas, which affect the prices that our customers receive for sales of their products. Accordingly, oil and gas companies' budgets are normally based on assumptions of expected crude oil and natural gas prices for the relevant periods. Lower prices may reduce the amount of oil and gas that our customers can produce economically or reduce the economic viability of projects, both planned and in development. A substantial or extended decline in crude oil and natural gas prices could result in lower capital expenditures by our customers and, consequently, lead to a reduction in the number of wells they commission to be drilled. Fluctuations in our customers' capital expenditures have caused the results of our drilling operations to vary from year to year.

World prices for crude oil are characterized by significant fluctuations determined by the global balance of supply and demand, expectations regarding future supply and demand, the condition of the world economy and geopolitical events, prices of, demand for, and availability of alternative fuels and many other factors beyond our control. Natural gas prices in Russia 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.

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."

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 and workover 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 drilling and workover services, including sidetracking, horizontal, and underbalanced drilling.

For example, in 2012, we drilled 862,309 meters utilizing horizontal drilling techniques, representing 14% of our total drilling volumes, while in 2011, our horizontal drilling operations were 879,090 meters, or about 18% of total drilling volumes. Unexploited oil and gas reserves in Russia increasingly occur in more challenging environments, both geographically and geologically, and drilling is getting increasingly complex. "Easy to access" reservoirs that were intensively developed during past decades are no longer capable of delivering appropriate flow rates using conventional drilling techniques. As existing brownfield resources deplete, particularly in such mature oil production provinces as Western Siberia and Volga Urals, the period of sustainable production growth from conventional oil is ending and oil companies are being pushed to develop less explored regions where the complexity of drilling and, accordingly, its costs, are currently higher. Additionally, Russia's strategic goal to maintain oil production at least at current levels is driving higher drilling volumes and complexity of drilling as oil becomes harder to extract from maturing brownfields. Looking forward we see an increase in horizontal drilling as our customers report higher flow rates from wells drilled horizontally. In many instances vertical wells are not economically feasible due to low flow rates. The horizontal drilling technique is especially beneficial when used to drill reservoirs with a greater horizontal dimension than vertical thickness. Douglas-Westwood estimates that horizontal drilling could improve initial well flow rates by two to seven times in some reservoirs.

Our margins are also affected by the level of pass-through third party services in our expenses and revenue. 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 certain services we do not perform ourselves. Therefore, historically, some of the revenue has related to pass-through third party services and products sold to our customers with little or no related mark-up (such as, for example, telemetry and technology services for horizontal drilling). The corresponding payments we make to third party service providers are recorded under services of subcontractors. In 2012, we experienced a decrease in pass-through services due to our customer LUKOIL-West Siberia starting to contract for telemetry services directly with the third party provider from May 2012, as well as due to certain other non-recurring factors.

Productivity

Our results of operations are affected by the productivity of our crews, which in turn depends on a number of factors. These factors include crew training and incentives, operating procedures, fleet upgrades and modernization, logistics flow and mix of services.

Our core productivity as measured in meters drilled per crew per day improved by 8% during 2012 as compared to 2011. Over the medium-term to long-term we expect our productivity to continue to improve due to the ongoing implementation and utilization of more advanced drilling technologies and the application of new standards to our drilling operations. Advanced crew training and application of innovative technologies have allowed us to both improve rates of penetration and reduce non-productive time. Examples of technological advancements include wider usage of polycrystalline diamond compact drill bits, introduction of new generation drilling motors, optimization of bottom-hole assembly and mud programs/properties, and real-time drilling navigation. The use of top-drives and four-step drilling mud cleaning systems on our high specification rigs further improved rates of penetration and efficiency in the increasingly challenging wells we are drilling.

During the last several years we have witnessed a number of factors that could moderate the rate of productivity improvement when measured on a per meter basis. All these factors can be broadly described as changing the mix of services that we provide to our customers. Horizontal wells are inherently more time consuming to drill than comparable deviated wells. Another factor that affects our crew productivity is seasonality described in more detail below.

Seasonality and Extreme Weather Conditions

Our results of operations in both our onshore and offshore segments have experienced in the past, and are expected to continue to experience, seasonal fluctuations in revenue and expenses as a result of weather conditions. Our revenue from onshore and offshore drilling services can be negatively affected by particularly severe winter weather in certain regions of Russia that may make oil and gas operations difficult and potentially non-operational during that season. Our revenue from onshore drilling services may also be negatively affected by spring 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 revenue 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 commence drilling on a timely basis 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 adverse weather conditions, as our drilling rigs, equipment, material and crews that are required for such services are mobilized to remote locations accessible only by winter roads or helicopters. On the other hand, onshore production drilling services tend to be less affected by adverse weather conditions due to the cluster drilling method we utilize, which involves drilling multiple wells from a single drilling pad. However, also when using this drilling method, our operations may be temporarily disrupted by adverse weather conditions such that 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. However, the Yuri Korchagin platform is ice-resistant, which allows us to drill there year-round.

Operating Capacity

Our revenue growth can be negatively affected by the number of drilling rigs and drilling crews available to us. Our ability to increase our onshore business or maintain its current level depends on our ability to procure a sufficient number of new drilling rigs and modernize our existing ones. Following the stabilization of the global economy, we witnessed the recovery of demand for drilling services in Russia. Importantly, since the wells we drill are getting deeper, we anticipate increased demand for heavier rigs. In 2010, we developed a five-year plan for the delivery of new rigs pursuant to which we ordered 11 new drilling rigs in 2012 with delivery in 2013 and 2014. These new purchases were either for heavy rigs, i.e., 320 tonne hook load, equivalent to 1,500 horsepower or greater, or medium rigs with 250 tonne hook load. In the next three years, we expect to purchase up to 32 new onshore rigs as part of our rig fleet upgrade and modernization plan. As of December 31, 2012, approximately 25% of our drilling rigs were in the heavy class.

At the end of 2012 we believed we had sufficient operating capacity with the addition of the new rigs to our drilling fleet and our increased drilling productivity to drill approximately 7.3 million meters on an annual basis. The transaction with Schlumberger has substantially expanded our capacity and strengthened our presence in Russia.

Additionally, our results of operations can be affected by the amount of capital expenditures we are required to undertake in order to modernize and renovate our drilling rig fleet periodically and to satisfy applicable equipment certification requirements. As of December 31, 2012, approximately 33% of our drilling rigs were more than 20 years old, compared to the Russian average of 59% of rigs that were over 20 years old, according to Douglas Westwood. See “Risk Factors — Risks Related to Our Business — Our onshore drilling rig fleet requires substantial capital expenditures in order to periodically modernize and renovate it. In addition, we may be unable to procure sufficient numbers of new drilling rigs to pursue our growth strategy or maintain our business at its current level.”

Foreign Currency Fluctuations

Our Consolidated Financial Statements are presented in US dollars, which is the Group’s presentation currency. The functional currency of most of our operating entities is the Russian ruble as this is the currency of the primary economic environment in which they operate and in which cash is generated and expended. The results and financial position of our operating entities are translated into US dollars as described in more detail in “— Critical Accounting Policies — Functional and reporting currency.” Foreign exchange gains and losses result from converting monetary assets and liabilities denominated in Russian rubles into US dollar amounts at each balance sheet date.

The Group has currency exposure on the carrying amount of the rig fleet, which is reflected as a Russian ruble asset in the accounting records of the Group’s Russian subsidiaries and then translated into US dollars in the Group’s audited consolidated financial statements. A strengthening of the Russian ruble against the US dollar means a higher US dollar carrying amount of the Group’s rig fleet and vice versa. At the same time, as of December 31, 2012, 39% of our long and short-term debt was denominated in US dollars. Accordingly, the translation effect of the assets is not balanced by a similar translation effect of the liabilities.

Factors Affecting Comparability of Prior Periods

Our selected financial data, Consolidated Financial Statements and related notes included elsewhere in this Prospectus and the following discussion and analysis reflect the contribution of the businesses we acquire from their respective dates of consolidation, and, as a result, include results for our consolidated subsidiaries SGC-Drilling and SKRS since May 2011 and CSVI Limited since February 2011. Full-year consolidation of these subsidiaries’ results in 2012, compared to their partial consolidation in 2011, has affected the direct comparability of our results for 2012 versus 2011. Any future acquisitions that we may complete will similarly affect the comparability of our results for the relevant future periods. We do not provide comparable financial information for periods preceding the date on which we started consolidating the relevant subsidiaries. For more information, see Note 17 to the Consolidated Financial Statements, “— Liquidity and Capital Resources — Cash Flows — Investing activities” and “— Results of Operations — Year Ended December 31, 2012 Compared to Year Ended December 31, 2011” below.

Recent Developments

During the first quarter of 2013, we drew down US$165.4 million under our five-year US$227 million loan facility arranged by ZAO UniCredit Bank.

On January 1, 2013, our new incentive plan for top managers went into effect. It provides for a bonus computed upon a multiple of the manager's base pay and yearly cash bonus earned upon the achievement of certain EPS goals, which vests over three years. The award is paid each year in either cash or stock, at the election of our Board of Directors.

Since December 31, 2012, we have continued to perform in line with management's expectations. In addition, we have continued to make significant capital expenditures to continue to take advantage of the growing demand for drilling services in our market. Our management currently has a positive outlook for our trading prospects for the remainder of 2013.

Revenue

We generate our revenue primarily from 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 99.6%, 98.8%, and 99.3% of our total revenue for the years ended December 31, 2012, 2011 and 2010, respectively. Related services include our workover and sidetracking operations.

A significant portion of our revenue from drilling and related services is derived from LUKOIL, which, for the year ended December 31, 2012, accounted for approximately 63.5% of our total revenue. We provide our onshore drilling services to LUKOIL on the basis of our long-term three-year LUKOIL Framework Agreement, under which we are required to provide a guaranteed scope of drilling and well construction services to LUKOIL through the end of 2015. Pursuant to the LUKOIL Framework Agreement, BKE enters into annual contracts with companies in 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. Depending on the complexity of the drilling, our services are provided either on a general contractor "turn-key" basis or on a day rate basis. Completion services which are a part of the well construction service that we provide are contracted separately, given the increased complexity of such services.

In addition, in 2010 we entered into a five-year workover framework agreement with LUKOIL. This workover framework agreement includes a guaranteed volume of workover services to be provided during the five-year term. LUKOIL also represents a significant part of our offshore drilling business, as we have a multi-year agreement for our services on LSP-1 platform on Yury Korchagin field in the Caspian Sea.

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 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 day rate basis. For further details of our onshore contracts see "Business — Onshore Drilling Services — Contracting." For a description of our offshore drilling contracts see "Business — Offshore Drilling Services — Contracting."

Current contracting practices in the Russian drilling market contribute to fluctuations in revenue. We obtain a significant part of our business through open tenders. 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. 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.

Cost of Services, Excluding Depreciation and Taxes

Our cost of services, excluding depreciation and taxes, comprises seven primary cost categories: services of subcontractors, wages and salaries, materials, fuel and energy, transportation, leasing and rent and other. The table below sets forth the costs associated with each category in dollars and as a percentage of the cost of services, excluding depreciation and taxes, for the periods indicated.

	Year ended December 31,					
	2012		2011		2010	
	(in thousands of US$, except percentages)					
Cost of services, excluding depreciation and taxes	**2,151,336**	**100%**	**1,906,256**	**100%**	**1,204,333**	**100%**
Services of subcontractors	936,797	43.5%	917,187	48.1%	492,243	40.9%
Wages and salaries	488,407	22.7%	425,210	22.3%	326,299	27.1%
Materials	414,288	19.3%	309,252	16.2%	221,375	18.4%
Fuel and energy	152,785	7.1%	131,776	6.9%	80,273	6.7%
Transportation of employees to drilling fields	40,003	1.9%	30,689	1.6%	23,364	1.9%
Leasing and rent	20,781	1.0%	26,336	1.4%	10,884	0.9%
Other	98,275	4.6%	65,806	3.5%	49,895	4.1%

Services of Subcontractors

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 certain services we do not perform ourselves. In our onshore division, services contracted from third parties include subcontracting for technological services, transportation services, preparatory services, well facility services, petrophysical services, well services, drilling motor and drilling navigation services, cementing services, and drilling bit services. Subcontractor services was the largest component of our cost of services, excluding depreciation and taxes, for the years ended December 31, 2012, 2011 and 2010. Services of subcontractors include certain reimbursable services the cost of which is passed through to our customers at little or no mark-up. The reimbursements for such services that we receive from our customers are recorded as revenue.

Wages and Salaries

Employee wages and salaries include costs of our personnel directly engaged in providing onshore and offshore drilling and other services. Employee costs include amounts we pay in support of our private employee insurance and medical funds. Such expenses do not include contributions to pension funds or social taxes.

Materials

Expenditures for materials have been driven primarily by our customers' particular drilling programs and projects. Materials for our onshore and offshore drilling divisions primarily include spare parts, tubular goods, mud chemicals, cement, and drilling tools.

Fuel and energy

Fuel and energy costs consist primarily of oil, lubricants, and electricity.

Transportation of employees to drilling fields

Costs relating to the transportation of employees to field locations 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, excluding depreciation and taxes, 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 total revenue for the periods indicated. In absolute terms, all of our 2012 operating results set forth below were affected by the 5.5% depreciation of the Russian ruble against the US dollar as of year-end 2012 as compared to year-end 2011.

	Year ended December 31,					
	2012		2011		2010	
	(in thousands of US$, except percentages)					
Total revenue	**3,237,333**	**100%**	**2,766,749**	**100%**	**1,822,180**	**100%**
Cost of services, excluding depreciation and taxes	(2,151,336)	(66.5%)	(1,906,256)	(68.9%)	(1,204,333)	(66.1%)
General and administrative expenses, excluding depreciation and taxes	(161,270)	(5.0%)	(144,614)	(5.2%)	(106,920)	(5.9%)
Taxes other than income taxes	(134,733)	(4.2%)	(119,181)	(4.3%)	(72,547)	(4.0%)
Depreciation	(249,987)	(7.7%)	(213,492)	(7.7%)	(144,241)	(7.9%)
Gain/(loss) on disposal of property, plant and equipment	4,786	0.1%	(1,362)	(0.0%)	6,344	0.3%
Impairment loss	—	—	(1,296)	(0.0%)	(7,096)	(0.4%)
Income from operating activities	**544,793**	**16.8%**	**380,548**	**13.8%**	**293,387**	**16.1%**
Interest expense	(53,661)	(1.7%)	(52,342)	(1.9%)	(15,125)	(0.8%)
Interest income	12,094	0.4%	11,485	0.4%	7,993	0.4%
Currency transaction gain/(loss)	631	0.0%	(11,054)	(0.4%)	(7,355)	(0.4%)
Gain/(loss) on business exchange transaction	—	—	32,284	1.2%	557	0.0%
Other income/(expenses)	(8)	(0.0%)	6,495	0.2%	(951)	(0.1%)
Income before income taxes	**503,849**	**15.6%**	**367,416**	**13.3%**	**278,506**	**15.3%**
Income tax expense	(121,840)	(3.8%)	(84,045)	(3.0%)	(71,680)	(3.9%)
Net income	**382,009**	**11.8%**	**283,371**	**10.2%**	**206,826**	**11.4%**

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenue

Revenue increased by US$470.6 million, or 17.0%, to US$3,237.3 million for 2012 from US$2,766.7 million in 2011. The increase was primarily due to an increase in services provided to our customers in most of our business lines and the full-year consolidation of the newly acquired businesses that we purchased in 2011 from Schlumberger and Transocean (see "Business — Overview"). In US dollar terms, revenue did not increase in line with the increase in drilling volumes primarily as a result of the 5.5% depreciation of the Russian ruble against the US dollar as of year-end 2012 as compared to year-end 2011. Adjusting for the change in the ruble-US dollar exchange rate, our revenue in functional currency terms increased by approximately 23% in 2012 as compared to 2011. In addition, revenue was negatively impacted by the decrease in reimbursable pass-through telemetry services due to our customer LUKOIL-West Siberia starting to contract for such services directly with the third party provider from May 2012.

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

	Year ended December 31,			
	2012		2011	
	(in thousands of US$, except percentages)			
Drilling and related services	3,222,830	99.6%	2,734,444	98.8%
Other sales and services	14,503	0.4%	32,305	1.2%
Total Revenue	**3,237,333**	**100%**	**2,766,749**	**100%**

Cost of services, excluding depreciation and taxes

Cost of services, excluding depreciation and taxes, increased by US$245.1 million, or 12.9%, to US$2,151.3 million for 2012 from US$1,906.3 million for 2011. Cost of services, excluding depreciation and taxes, as a percentage of total revenue decreased from 68.9% for 2011 to 66.5% for 2012. The decrease as a percentage of total revenue was primarily attributable to a decrease in reimbursable pass-through services (such as, for example, telemetry and technology services) as described in more detail above, and efforts by the Group's management to control costs. The increase in absolute terms was primarily due to the overall growth of our operations.

For 2012, services of subcontractors were US$936.8 million, or 43.5% of total cost of services, excluding depreciation and taxes, as compared to US$917.2 million, or 48.1% of total cost of services, excluding depreciation and taxes, for 2011. The increase in absolute terms was primarily due to the full year consolidation of newly acquired businesses, compared to their partial consolidation in 2011, and growth in workover volumes, which was almost fully offset by a decrease in reimbursable services that were largely pass-through, as described above, in the BKE onshore business, as well as a decline in technological, cementing and drilling fluids pass-through services in our offshore drilling segment.

Wages and salaries for 2012 were US$488.4 million, or 22.7% of total cost of services, excluding depreciation and taxes, as compared to US$425.2 million, or 22.3% of total cost of services, excluding depreciation and taxes, for 2011. The increase in absolute terms was primarily driven by the full year consolidation of the newly acquired businesses, compared to their partial consolidation in 2011, the formation of new crews in the light of increased drilling volumes in 2012 over 2011, and a significant growth in workover volumes where wages and salaries are a comparatively larger component of cost of services, excluding depreciation and taxes. The effect from the annual regular salary increase for our employees was largely offset by the depreciation of the Russian ruble against the US dollar. The increase in wages and salaries as a percentage of total cost of services, excluding depreciation and taxes, resulted from a decrease in the share of pass-through services of subcontractors in total cost of services, excluding depreciation and taxes, as described above, causing the relative share of other constituents of our cost of services, excluding depreciation and taxes, to increase. We were able to achieve revenue growth in our core drilling business without proportional increase in headcount due to increased productivity.

For 2012, cost of materials was US$414.3 million, or 19.3% of total cost of services, excluding depreciation and taxes, as compared to US$309.3 million, or 16.2% of total cost of services, excluding depreciation and taxes, for 2011. The increase in both absolute terms and as a percentage of total cost of services, excluding depreciation and taxes, was primarily caused by the first-time full year consolidation of SGC-Drilling in 2012 (where a significant portion of cost of materials was attributable to the casing pipe for Rosneft in Nefteyugansk, the cost of which was a pass-through) and growth in the usage of materials in West Siberia (also significantly affected by the casing pipe in Nefteyugansk).

Fuel and energy costs for 2012 were US$152.8 million, or 7.1% of total cost of services, excluding depreciation and taxes, compared to US$131.8 million, or 6.9% of total cost of services, excluding depreciation and taxes, for 2011. The increase in absolute terms was primarily driven by the full year consolidation of newly acquired businesses and growth in volumes of our legacy drilling and workover operations, while the increase as a percentage of total cost of services, excluding depreciation and taxes, was immaterial.

Expenses relating to the transportation of employees to field locations for 2012 were US$40.0 million, or 1.9% of total cost of services, excluding depreciation and taxes, compared to US$30.7 million, or 1.6% of total cost of services, excluding depreciation and taxes, for 2011. The increase both in absolute terms and as a percentage of the total cost of services, excluding depreciation and taxes, was primarily caused by the indexation of air ticket prices and geographic diversification of our operations due to new customer relationships.

Leasing and rent costs for 2012 were US$20.8 million, or 1.0% of total cost of services, excluding depreciation and taxes, compared to US$26.3 million, or 1.4% of total cost of services, excluding depreciation and taxes, for 2011. The decrease in both absolute terms and as a percentage of total cost of services, excluding depreciation and taxes, was due to the gradual discontinuance of the leases in respect of drilling equipment, partially offset by the full year consolidation of the newly acquired businesses and the rent of equipment to start a workover project for Rosneft in a new location on the Vankor field.

Other expenses amounted to US$98.3 million, or 4.6%, of our total cost of services, excluding depreciation and taxes, for 2012, as compared to US$65.8 million, or 3.5% of our total cost of services, excluding depreciation and taxes, for 2011. The increase both in absolute terms and as a percentage of total cost of services, excluding depreciation and taxes, was primarily driven by the increase in insurance expenses due to the expansion of our rig fleet and higher well insurance costs related to the deeper wells we drilled. In addition, the integration of the newly acquired businesses also contributed to the increase.

General and Administrative Expenses, Excluding Depreciation and Taxes

General and administrative expenses, excluding depreciation and taxes, increased by US$16.7 million, or 11.5%, to US$161.3 million for 2012, as compared to US$144.6 million for 2011. As a percentage of total revenue, General and administrative expenses, excluding depreciation and taxes, decreased to 5.0% for 2012 from 5.2% for 2011. The increase in absolute terms was primarily attributable to the full-year consolidation of newly acquired businesses, while the decrease as a percentage of total revenue was not material.

Taxes Other Than Income Taxes

Taxes other than income taxes include various local taxes, such as social, property, road, and other small regional taxes. Taxes other than income taxes increased by US$15.6 million, or 13.0%, to US$134.7 million for 2012, as compared to US$119.2 million for 2011. The increase in absolute terms was primarily driven by the full-year consolidation of newly acquired businesses and formation of new workover crews, while the decrease as a percentage of total revenue from 4.3% in 2011 to 4.2% in 2012 was not material.

Depreciation

Depreciation increased by US$36.5 million, or 17.1%, to US$250.0 million for 2012 as compared to US$213.5 million for 2011. As a percentage of total revenue, depreciation was 7.7% in both 2012 and 2011. The increase in absolute terms was primarily the result of our on-going modernization program, significant capital expenditures in property, plant and equipment, and the depreciation of equipment and machinery acquired with the purchase of new businesses from Schlumberger and Transocean as described in more detail above.

Gains/(Loss) on Disposal of Property, Plant and Equipment

Gain on the disposal of property, plant and equipment amounted to US$4.8 million for 2012, as compared to a US$1.4 million loss on the disposal of property, plant and equipment for 2011. This difference was primarily due to the timing of opportunistic sales of unneeded or obsolete equipment.

Impairment Loss

In 2012 we did not recognize any impairment loss, compared to a loss of US$1.3 million in 2011 resulting from the write-down of intangible assets of one of our smaller subsidiaries.

Income From Operating Activities

Income from operating activities increased by US$164.2 million, or 43.2%, to US$544.8 million for 2012, as compared to US$380.5 million for 2011. The increase in absolute terms was primarily due to the increase in drilling and, to a lesser extent, workover volumes, and sustained cost control efforts, as well as the full-year consolidation of newly acquired businesses. As a percentage of total revenue, income from operating activities increased from 13.8% for 2011 to 16.8% in 2012. This was primarily due to the overall positive impact of our cost control efforts.

Interest Expense

Interest expenses increased by US$1.3 million, or 2.5%, to US$53.7 million for 2012, compared to US$52.3 million for 2011. The increase in interest expense was primarily attributable to the full year impact of additional borrowings raised during 2011 to support the growth of both our onshore and offshore businesses including the acquisitions of new businesses from Schlumberger and Transocean and modernization of our drilling fleet. This was partially offset by the scheduled repayment of our other outstanding loans. In particular, during 2011 we obtained a dollar-denominated credit facility from Raiffeisenbank in the amount of US$220 million bearing interest at 5.65% per annum and issued ruble bonds in the amount of RUB5,000 million bearing interest at 8.4% per annum.

Interest Income

Interest income increased by US$0.6 million, or 5.3%, to US$12.1 million for 2012 from US$11.5 million in 2011. The increase was primarily due to larger average cash balances in 2012 as compared to 2011.

Currency Transaction Gain/(Loss)

Currency transaction gain amounted to US$0.6 million for 2012, as compared to a loss of US$11.1 million in 2011. The difference was primarily due to less fluctuation of the ruble / US dollar exchange rate in 2012 as compared to 2011.

Gain on Business Exchange Transaction

We realized a gain on business exchange transaction of US$32.3 million in 2011 in connection with the sale of our telemetry, cementing and drilling fluid assets to Schlumberger as part of the asset swap transaction described elsewhere in this Prospectus. We did not have a gain on business exchange transaction during 2012.

Other Income/(Expenses)

Other income was US$6.5 million in 2011. These amounts represent unusual income or expense not resulting from our ordinary course of business activities. In 2011 we recognized income from the collection of a performance guarantee from one of our suppliers. We had a non-material amount of other expenses during 2012.

Income Before Income Taxes

Income before income taxes increased by US$136.4 million, or 37.1%, to US$503.8 million for 2012, compared to US$367.4 million for 2011. The increase in income before income taxes was attributable to the factors described in more detail above.

Income Tax Expense

Income tax expenses increased by US$37.8 million, or 45.0%, to US$121.8 million for 2012, compared to US$84.0 million for 2011. The increase was due primarily to a higher tax base. Our effective tax rate increased to 24.2% in 2012 from 22.9% in 2011. During 2011 we recognized a non-taxable net gain in the amount of US$32.8 million from selling our telemetry, cementing and drilling fluid assets to Schlumberger in April 2011. During 2012 no similar items were recognized and thus our effective tax rate returned to levels at which it was prior to 2011.

Net Income

As a result of the foregoing factors, net income increased by US$98.6 million, or 34.8%, to US$382.0 million for 2012, compared to US$283.4 million for 2011.

Year Ended December 31, 2011 Compared to December 31, 2010

Revenue

Our total revenue increased by US$944.6 million, or 51.8%, to US$2,766.7 million for 2011 from US$1,822.2 million for 2010 due to an increase in revenue from both drilling and related services and other sales and services. The increase in revenue from drilling and related services was primarily due to the acquisition of new businesses in the first half of 2011 with a resulting increase in pass-through third party services. Increase in revenue from other sales and services was mainly attributable to rental fees received for the new jack-up rig *SATURN* after its acquisition from Transocean in February 2011 to the end of May 2011, during which period we were in the process of reassigning the long-term contract with Petronas from an affiliate of Transocean to the Company. We had no similar income in 2010.

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

	Year ended December 31,			
	2011		2010	
	(in thousands of US$, except percentages)			
Drilling and related services	2,734,444	98.8%	1,808,905	99.3%
Other sales and services	32,305	1.2%	13,275	0.7%
Total Revenue	**2,766,749**	**100%**	**1,822,180**	**100%**

Cost of services, Excluding Depreciation and Taxes

Cost of services, excluding depreciation and taxes, increased by US$701.9 million, or 58.3%, to US$1,906.3 million for 2011 from US$1,204.3 million for 2010. Cost of services, excluding depreciation and taxes, as a percentage of total revenue increased from 66.1% in 2010 to 68.9% for the fiscal year 2011. This increase was due primarily to significant changes in the mix of services. Drilling deeper wells and a higher level of horizontal drilling, which requires expensive telemetry and directional services provided by third parties, resulted in an increase in pass-through services and products sold to our customers with little or no related mark-up. Because we have very little or no margin on the pass-through third party services we sell to our customers, this resulted in an increase of cost of services, excluding depreciation and taxes, as percentage of total revenue. In addition, we experienced cost inflation in 2011, particularly related to social taxes, fuel, energy and transportation, as described in more detail below.

Services of subcontractors for 2011 were US$917.2 million, or 48.1% of total cost of services, excluding depreciation and taxes, as compared to US$492.2 million, or 40.9% of total cost of services, excluding depreciation and taxes, for 2010. The key drivers of the increase both in absolute terms and as a percentage of total cost of services, excluding depreciation and taxes, were an increase in pass-through services which are sold to customers with little or no related mark-up (such as telemetry for horizontal wells, casing and pads construction), as described in more detail above, and the asset swap with Schlumberger which resulted in the disposal of internal services assets and a corresponding increase in the use of subcontractors.

Wages and salaries for 2011 were US$425.2 million, or 22.3% of total cost of services, excluding depreciation and taxes, as compared to US$326.3 million, or 27.1% of total cost of services, excluding depreciation and taxes, for 2010. The increase in absolute terms was primarily caused by the full-year consolidation of newly acquired businesses and by the general wage indexation. The decrease in the percentage of total cost of services, excluding depreciation and taxes, was mostly caused by an increase of services of subcontractors as percentage of total cost of services, excluding depreciation and taxes, resulting in the decrease of the relative share of other constituents of our cost of services, excluding depreciation and taxes.

Expenditures for materials for 2011 were US$309.3 million, or 16.2% of total cost of services, excluding depreciation and taxes, as compared to US$221.4 million, or 18.4% of total cost of services, excluding depreciation and taxes, for 2010. The increase in absolute terms was primarily due to the growth in drilling volumes and an increase in expenditures for materials attributable to casing pipe in some of our new projects, the cost of which is a pass-through.

Fuel and energy costs for 2011 were US$131.8 million, or 6.9% of total cost of services, excluding depreciation and taxes, as compared to US$80.3 million, or 6.7% of total cost of services, excluding depreciation and taxes, for 2010. The increase as a percentage of total cost of services, excluding depreciation and taxes, was not material while the increase in absolute terms was primarily due to the inflation of prices for energy and fuel in 2011 and the growth of our business in general.

Expenses relating to the transportation of employees to drilling fields for 2011 were US$30.7 million, or 1.6% of total cost of services, excluding depreciation and taxes, as compared to US$23.4 million, or 1.9% of total cost of services, excluding depreciation and taxes, for 2010. The decrease as a percentage of total cost of services, excluding depreciation and taxes, was due to increased use of third party services, while the increase in absolute terms was not material.

Leasing and rent costs for 2011 were US$26.3 million, or 1.4% of total cost of services, excluding depreciation and taxes, as compared to US$10.9 million, or 0.9% of total cost of services, excluding depreciation and taxes, for 2010. The change in percentage of total cost of services, excluding depreciation and taxes, was not material. The increase in absolute terms was primarily due to an increase in the amount of drilling equipment we hold under lease as well as the integration of leased equipment of SGC-Drilling acquired from Schlumberger in April 2011.

Other expenses amounted to US$65.8 million, or 3.5% of our total cost of services, excluding depreciation and taxes, for 2011, as compared to US$49.9 million, or 4.1% of our total cost of services, excluding depreciation and taxes, for 2010. The increase in absolute terms was primarily caused by an increase in insurance costs. The decrease as a percentage of total cost of services, excluding depreciation and taxes, was mostly caused by an increase of services of subcontractors as percentage of total cost of services, excluding depreciation and taxes, resulting in the decrease of the relative share of other constituents of our cost of services, excluding depreciation and taxes.

General and Administrative Expenses, Excluding Depreciation and Taxes

General and administrative expenses, excluding depreciation and taxes, increased by US$37.7 million, or 35.3%, to US$144.6 million for 2011, as compared to US$106.9 million for 2010. The increase was mostly attributable to the growth of our business, both organically and through acquisitions of new businesses from Schlumberger and Transocean. As a percentage of total revenue, General and administrative expenses, excluding depreciation and taxes, decreased to 5.2% in 2011 from 5.9% in 2010 due to the semi-fixed nature of such expenses.

Taxes Other Than Income Taxes

Taxes other than income taxes increased by US$46.6 million, or 64.3%, to US$119.2 million for 2011 as compared to US$72.5 million for 2010. This increase was mostly attributable to the change in Russian tax law and continuous adjustments in the formula for social contributions. As a percentage of revenue, taxes other than income taxes increased to 4.3% of revenue in 2011 as compared to 4.0% in 2010.

Depreciation

Depreciation increased by US$69.3 million, or 48.0%, to US$213.5 million for 2011 as compared to US$144.2 million for 2010. As a percentage of revenue, depreciation decreased to 7.7% for 2011 from 7.9% for 2010. The increase in absolute terms was caused primarily by our ongoing modernization program and significant capital expenditures in property, plant and equipment, as well as by the depreciation of the equipment and machinery acquired as part of the purchase of the new businesses. In addition, during 2011 we revised our original estimates of the useful life of our drilling pipe from 2-4 years to 2-3 years which increased depreciation for 2011 by US$16.1 million.

(Loss)/Gain on Disposal of Property, Plant & Equipment

Loss on the disposal of property, plant and equipment amounted to US$1.4 million for 2011 as compared to a gain of US$6.3 million for 2010. This change is explained by ordinary course disposals of property, plant and equipment and by the fact that no significant assets were sold in 2011 compared to 2010 when gain was achieved through the sale of our transportation assets in the Perm branch of BKE.

Impairment Loss

Impairment loss decreased by US$5.8 million, or 81.7%, to US$1.3 million for 2011 from US$7.1 million in 2010. The decrease was primarily due to the impairment of goodwill related to the purchase of a small workover company brought on by a negative change in its business prospects.

Income from Operating Activities

Income from operating activities increased by US$87.2 million, or 29.7%, to US$380.5 million for 2011, as compared to US$293.4 million for 2010. The increase was primarily due to an increase in the meters drilled and consolidation of the newly acquired businesses. As a percentage of total revenue, income from operating activities decreased to 13.8% in 2011 from 16.1% in 2010. This decrease was primarily due to an increase in services of subcontractors (particularly reimbursable services in horizontal drilling sold to customers with little or no mark-up which have a negative impact on our margins) and inflation of social taxes and prices for energy, fuel and transportation, as described in more detail above.

Interest Expense

Interest expense increased by US$37.2 million, or 246.1%, to US$52.3 million for 2011 as compared to US$15.1 million for 2010. This increase was caused by interest incurred on the debt raised in the end of 2010 and the first half of 2011 (US$254 million from Alfa-Bank in December 2010, US$220 million from Raiffeisenbank in April 2011, and a US$176 million ruble bond issue in June 2011). This debt was raised for the purposes of developing our onshore and offshore operations through acquisitions of new businesses from Schlumberger and Transocean and modernization of our drilling fleet.

Interest Income

Interest income increased by US$3.5 million, or 43.7%, to US$11.5 million for 2011 from US$8.0 million in 2010. The increase was primarily due to larger average cash balances in 2011 as compared to 2010.

Currency Transaction Gain/(Loss)

Currency transaction loss increased by US$3.7 million, or 50.3%, to US$11.1 million for 2011 from US$7.4 million in 2010. The increase was primarily due to greater fluctuation of the Russian ruble / US dollar exchange rate in 2011 as compared to 2010.

Gain on Business Exchange Transaction

Gain on business exchange transaction for 2011 was US$32.3 million, compared to US$0.6 million in 2010. The increase was due to a non-taxable gain realized on the sale of our in-house telemetry, drilling fluids and cementing business to Schlumberger in April 2011. No such material transactions occurred in 2010.

Other income/(expenses)

Other income amounted to US$6.5 million for 2011 as compared to other expenses of US$1 million in 2010. The difference was primarily due to collection on a performance guarantee bond from one of our suppliers in 2011. No such material events occurred in 2010.

Income before Income Taxes

Income before income taxes increased by US$88.9 million, or 31.9%, to US$367.4 million for 2011, as compared to US$278.5 million for 2010. The increase was attributable to the net gain realized from selling telemetry, cementing and drilling fluid assets to Schlumberger in April 2011 and to the other factors described in more detail above.

Income Tax Expense

Income tax expense increased by US$12.4 million, or 17.3%, to US$84.0 million for 2011, as compared to US$71.7 million for 2010. Our effective tax rate decreased to 22.9% in 2011 from 25.7% in 2010 primarily due to the fact that in 2010 a 5% foreign withholding tax was imposed on intercompany dividends declared and paid in the amount of RUB5,000 million. Additionally, in 2011 no tax was due on the US 32.8 million gain realized on the sale of certain assets to Schlumberger.

Net Income

As a result of the foregoing factors, net income increased by US$76.5 million, or 37.0%, to US$283.4 million for the fiscal year 2011, as compared to US$206.8 million for 2010.

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 existing and prospective 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 years ended December 31, 2012, 2011 and 2010.

	Year ended December 31,		
	2012	2011	2010
Net cash provided by operating activities	592,455	425,729	322,553
Net cash used in investing activities	(617,922)	(848,865)	(325,190)
Net cash provided by (used in) financing activities	(197,140)	347,340	206,188

Operating activities

Net cash provided by operating activities amounted to US$592.5 million for 2012, as compared to US$425.7 million for 2011. This increase in cash flows provided by operating activities was principally due to higher drilling and workover volumes, the full-year consolidation of newly acquired businesses, and sustained cost control efforts by our management.

Net cash provided by operating activities amounted to US$425.7 million for 2011, as compared to US$322.6 million for 2010. This increase in cash flows provided by operating activities was principally due to higher drilling volumes in 2011 compared to 2010 as well as cash flow generated by the newly acquired businesses.

Investing activities

Net cash used in investing activities amounted to US$617.9 million for 2012, as compared to US$848.9 million for 2011. Investing activities during 2012 were mainly represented by our capital expenditures that amounted to US$619.9 million (including US$150 million offshore capital expenditures) as compared to US$400.0 million (including US$97 million offshore capital expenditures) during the corresponding period of 2011. The increase of US$219.9 million primarily represented a payment to Lamprell in the amount of US$45.4 million for the construction of our second new build jack-up rig, *MERCURY*, with delivery scheduled for late 2014, as well as acquisition of four drilling rigs in Iraq for US$46.6 million, and our continuing focus on upgrading our onshore drilling fleet in Russia. During 2011 our investing activities were focused on the acquisitions of onshore and offshore assets from Schlumberger and Transocean, respectively.

Net cash used in investing activities amounted to US$848.9 million for 2011, as compared to US$325.2 million for 2010. The increase was attributable primarily to the acquisition of the jack-up rig *SATURN* from Transocean and the asset swap with Schlumberger. In addition, we continued to capitalize on the growth opportunities in our markets by significantly increasing our investments in new property, plant and equipment. In 2011 our capital expenditures were US$400.0 million, as compared to US$283.8 million in 2010 (which includes US$50 million offshore capital expenditures), including US$84 million spent in 2011 on construction of a new jack up drilling rig as compared to US$42 million for 2010. Another key factor attributing to this growth was the increase in our technical upgrade program and payments for the new rigs ordered in late 2010 and during 2011. The payments are staged and paid upon certain construction milestones.

Financing activities

Net cash used in financing activities amounted to US$197.1 million for 2012, compared to net cash of US$347.3 million provided by financing activities for 2011. During both periods, dividends were paid and certain debt was redeemed in accordance with its terms. During 2011, we raised RUB5,000 million (approximately US$167 million) through a ruble bond offering and obtained new credit line facilities, while in 2012 one new credit facility in the amount of US$ 25.7 million was obtained from Sberbank for our workover division to refinance intercompany debt. During 2012, we repaid US$153 million in debt in accordance with its terms.

Net cash provided by financing activities amounted to US$347.3 million for 2011, as compared to net cash of US$206.2 million provided by financing activities for 2010. During both periods, dividends were paid and certain debt was redeemed in accordance with its terms. The increase in net cash provided by financing activities during 2011 was attributable to debt raised from Raiffeisenbank and ruble bonds issued during the year used for developing our onshore and offshore businesses through acquisitions and modernization of our drilling fleet.

Liquidity

As of December 31, 2012, 2011 and 2010, we had cash and cash equivalents of US$305.3 million, US$509.8 million and US$629.5 million, respectively.

	Year ended December 31,		
	2012	2011	2010
	(in thousands of US$)		
Cash held in banks—Russian rubles	154,992	188,410	76,451
Short term deposit—Russian rubles	128,295	194,771	154,730
Cash held in banks—US dollars	19,118	81,770	357,911
Short term deposit—US dollars	2,805	39,320	40,033
Other	123	5,510	341
Total cash and cash equivalents	**305,333**	**509,781**	**629,466**

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 drilling sites. See "— Certain Factors Affecting our Results of Operations — Seasonality and Extreme Weather Conditions."

Advances for Property, Plant and Equipment and Construction in Progress

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.

For each of the years ended December 31, 2012, 2011 and 2010 advances given for property, plant and equipment amounted to the following:

	Year ended December 31,		
	2012	2011	2010
	(in thousands of US$)		
Advances given for property, plant and equipment	275,641	133,367	67,557

The amounts represent cash advances for property, plant and equipment purchased but for which we have not yet taken delivery. The increase in advances given for property, plant, and equipment in 2012 as compared to 2011 was mainly attributable to a US$84.0 million payment made to Lamprell for the construction of our first new-build jack-up rig, *NEPTUNE*, with delivery scheduled for the third quarter of 2013, and a US$45.4 million payment made to Lamprell for the construction of our second new-build jack-up rig, *MERCURY*, with delivery scheduled for late 2014. The increase in advances given for property, plant and equipment in 2011 as compared to 2010 was attributable to a US$84.0 million advance paid for the construction of the new jack-up rig, *NEPTUNE*, to Lamprell and advances paid for the construction of new onshore drilling rigs.

The table below presents the amounts invested in construction still in progress for the periods indicated:

	Year ended December 31,		
	2012	2011	2010
	(in thousands of US$)		
Construction in progress	51,568	92,142	40,146

The decrease in construction in progress as of December 31, 2012 compared to December 31, 2011 was the result of normal variances in the new drilling rig delivery schedule. The increase in construction in progress as of December 31, 2011 compared to December 31, 2010 was due to the arrival of new drilling rigs that had not yet been put into service.

Additionally, as of December 31, 2012, we had on deposit restricted cash in the amount of US$45.4 million included in non-current assets to secure progress payments to Lamprell for the construction of the two new build jack-up drilling rigs. We had an additional US$ 4.0 million of restricted cash included in current assets as of December 31, 2012 used to collateralize the issuance of a guarantee for a customer.

Capital Resources

For the years ended December 31, 2012, 2011 and 2010, our short-term and long-term debt amounted to the following:

	At December 31,		
	2012	2011	2010
	(in thousands of US$)		
Short-term debt and current portion of long-term debt	257,860	175,217	117,550
Long-term debt	442,013	578,117	286,367

As of December 31, 2012, our loans and borrowings were comprised of the following:

Long-term debt	Final maturity date	Currency	Interest Rate	Outstanding debt (in thousands of US$)	Security
Debt of the Company					
Loans from stockholders	2014	USD	5.8%	50,000	None
Debt of our subsidiaries					
Bank loans					
OAO Sberbank of Russia	2014	RUB	7.7%	43,899	None
OAO Sberbank of Russia	2013	RUB	LIBOR + 4.1%	20,214	Property, plant and equipment
OAO Sberbank of Russia	2015	RUB	10.15%	26,339	None
Raiffeisenbank	2016	USD	5.65%	220,000	Shares in CSVI Limited
Alfa-Bank	2013	RUB	8.4%	122,478	None
Russian ruble bonds	2018	RUB	8.4%	164,622	None
Rushong-Hua	2015	RUB	6.3%	52,321	None
Total long-term debt				**699,873**	
Total non-current long-term debt				**442,013**	

As of December 31, 2012, we had two unused lines with ZAO UniCredit Bank. The first was a revolving short-term line of credit denominated in Russian rubles which at the applicable ruble-US dollar exchange rate of the Central Bank of Russia on December 31, 2012 equaled US$96.1 million. Loans under this line of credit are provided for a duration of 90 days and are available for drawdown until November 2014. The second one is a revolving overdraft line denominated in Russian rubles which at the applicable ruble-US dollar exchange rate of the Central Bank of Russia on December 31, 2012 equaled US$17.3 million and is available until September 2015. We can use both lines solely for issuing or extending unsecured commercial letters of credit for the purpose of acquiring new drilling rigs (used as security for these lines).

As of December 31, 2012, we also had a revolving multi-currency overdraft line with OAO Sberbank of Russia denominated in Russian rubles which at the applicable ruble-US dollar exchange rate of the Central Bank of Russia on December 31, 2012 equaled US$98.8 million and is available until June 2017. We can use the overdraft line solely for issuing or extending unsecured commercial letters of credit for the purpose of acquiring new drilling rigs. As of December 31, 2012, the line was undrawn.

As of December 31, 2012, we entered into a five-year US$227 million loan facility arranged by ZAO UniCredit Bank with an interest rate of three month LIBOR + 3.65% per annum. The final maturity date of the facility is December 27, 2017. The loan facility also provides for an irrevocable renewable bank guarantee of US$45.4 million. The loan facility is secured by our drilling assets. As of December 31, 2012, the line was undrawn. In the first quarter of 2013, we drew down US$165.4 million under this facility.

We intend to use the net proceeds from the Offering to repay our US$220 million credit facility with Raiffeisenbank.

We believe we have sufficient working capital to meet our requirements for at least the next 12 months. We also expect to meet our contractual payment obligation requirements for at least the next 12 months with cash flow from our operations, other financing arrangements, and our available working capital.

The following table summarizes the principal maturities of our long-term debt, including its current portion, as of December 31, 2012. Long-term debt also includes remaining installment payments for onshore rigs. We expect to meet our debt payment requirements with cash flows from our operations and other financing arrangements.

	Payments due by period						
	Total	2013	2014	2015	2016	2017	2018 and thereafter
	(in thousands of US$)						
Contractual Obligations							
Long-term debt	699,873	257,860	148,615	94,930	33,846	—	164,622

Our long-term debt and overdraft lines are secured by certain property, plant and equipment with a carrying amount of US$264.9 million as of December 31, 2012. As of December 31, 2012, our secured debt represented approximately 34% of our total long and short-term debt.

As of December 31, 2012, our short-term and long-term capital lease obligations were nil.

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, revenue, 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.

A significant proportion of our operations are with LUKOIL Group companies and as such the Company has significant concentrations of credit risk with the LUKOIL Group.

Included in our sales and accounts receivables are the following transactions and balances with LUKOIL Group companies:

	At December 31,		
	2012	**2011**	**2010**
Revenue for the years ended December 31, 2012, 2011 and 2010	2,054,724	1,692,200	1,280,826
Account receivables as of December 31, 2012, 2011 and 2010	260,781	194,005	124,182

The LUKOIL Group represented approximately 63.5%, 61.2% and 70.3% of our sales for the years ended December 31, 2012, 2011 and 2010, respectively. In order to reduce exposure to this credit risk we have been increasing our business with other, unrelated, customers and continue to monitor our account receivable balances closely. We perform periodic credit checks on our customers and, as a result, did not have any material bad debt expense from our operations during 2012, 2011 or 2010. Our allowance for doubtful accounts stood at US$12.6 million at December 31, 2012, which amount was considered adequate. Our cash and cash equivalents are placed with major banks in Russia, Switzerland, Austria and the United Kingdom.

Interest rate risk. Our exposure to market risk for changes in interest rates relates primarily to our long-term and short-term debt. The table below presents scheduled long-term debt maturities in US dollars and related weighted-average interest rates for each of the 12-month periods ending December 31 relating to debt obligations as of December 31, 2012:

	Scheduled Maturity							Fair Value
	2013	**2014**	**2015**	**2016**	**2017**	**2018 and thereafter**	**Total**	**December 31, 2012**
	(in millions of US$, except percentages)							
Total long term debt	257.9	148.6	94.9	33.9	—	164.6	699.9	699.9
Fixed Rate	237.7	148.6	94.9	33.9	—	164.6	679.7	679.7
Average Interest Rate	7.2%	7.1%	7.5%	7.9%	8.4%	8.4%	—	—
Variable Rate*	20.2	—	—	—	—	—	20.2	20.2
Average Interest	5.7%	—	—	—	—	—	—	—

* Based on the LIBOR rate at the end of 2012, which rate may fluctuate in later periods.

Currency risk. 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 and certain non-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 of December 31, 2012, 2011 and 2010 we had US$429.9 million, US$479.9 million, and US$327.5 million of a total of US$699.9 million, US$753.3 million, and US$403.9 million of our long and short-term debt denominated in the Russian ruble, respectively. In addition, the results of our operations are impacted by transactions entered into in currencies other than the Russian ruble, and a fluctuation in the Russian ruble versus US dollar exchange rates will result in a change in the recognized revenue and expenses associated with such transactions. Furthermore, while the majority of our revenue are denominated in the Russian ruble, some of our costs, including some of those associated with purchases of foreign manufactured land and offshore drilling 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. In addition, in each of 2012, 2011 and 2010 certain of our intercompany debt was denominated in a currency other than the functional currency of the debtor company (in all cases the debtor companies are and were 100% owned members of our consolidated group).

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, revenue and expenses and the disclosure of contingent assets and liabilities. Actual amounts may differ from these estimates. The following critical accounting policies require significant judgments, assumptions and estimates and should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Prospectus.

Functional and reporting currency. Our functional currency, except for that of BKE, OOO KRS Eurasia, OOO Meridian, SGC-Drilling, SKRS and TOO BKE Kazakhstan Burenie, is the US dollar. The functional currency of BKE, OOO KRS Eurasia, OOO Meridian, SGC-Drilling and SKRS is the Russian ruble, and the functional currency of TOO BKE Kazakhstan Burenie is the Kazakh Tenge as these are the currencies of the primary economic environments in which they operate 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, 2012, 2011 and 2010 were 30.3727, 32.1961 and 30.4769 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 comprehensive income 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/loss.

The Russian ruble and other currencies of republics of the former Soviet Union are not readily convertible currencies outside their countries. Accordingly, the translation of amounts recorded in these currencies to US dollars should not be construed as a representation that such currency amounts have been, could be, or will be in the future, converted 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 collectability 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 to the extent that work has been performed.

In 2012 we changed our revenue recognition policy from units-of-delivery method to the percentage-of-completion method. This change was caused by the intention to transition from US GAAP to IFRS at some future date. Both methods are acceptable under US GAAP but percentage-of-completion method is preferable due to providing more transparency and more regular recognition of income. The adjustments required to reflect this change in accounting policy are disclosed in Note 2 to the Consolidated Financial Statements.

The units-of-delivery method recognizes as revenue the contract price of units of a basic production product delivered during a period and as the cost of earned revenue the costs allocable to the delivered units; costs allocable to undelivered units were reported in the balance sheet as inventory or work in progress.

The percentage-of-completion method recognizes income as work on a contract progresses. For unit-price contracts (based on meters drilled or day-rates), the percentage-of-completion equals 100% of work performed each month. Revenue is recognized based on meters drilled or day-rates. For fixed-price contracts the percentage-of-completion is defined based on surveys of work performed or completion of physical proportion. Contract costs are accumulated in the same manner as inventory costs and are charged to operations as the related revenue from contracts is recognized. 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.

Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the Group.

Revenue for other sales and services is 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 – 20 years
Machinery and equipment	2 – 20 years
Vehicles	5 – 20 years

The cost of maintenance, repairs and replacement of minor items of property, plant and equipment is expensed as incurred. Major refurbishments 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.

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 effect on deferred income tax assets and liabilities of a change in tax rates is recognized in earnings in the reporting period which included the enactment date.

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.

An income tax position is recognized only if the uncertain position is more likely than not of being sustained upon examination, based on its technical merits. A recognized income tax position is measured at the largest amount that is greater than 50% likely to be realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties relating to unrecognized tax benefits in income tax expense in earnings.

Pension benefits. The Group sponsors a post-employment and post-retirement benefits program. The primary component of the program is a defined benefit pension plan that covers the majority of the Group's employees. The plan is administered by a non-state pension fund, LUKOIL-GARANT, and provides pension benefits. The Group also provides several long-term employee benefits such as death-in-service benefits, lump sum at jubilee ages and lump-sum payments upon retirement of a defined benefit nature. 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 post-retirement benefits. As of December 31, 2012, the Group had accrued pension liability of US$15.6 million. See Note 13 to the Consolidated Financial Statements for a description of the Group's pension benefits.

Transition from US GAAP to IFRS

We currently anticipate that we will continue to report our financial results under US GAAP up to and including the year 2014, but intend to report our interim and full-year 2015 financial results and all periods thereafter under IFRS. We do not expect the adoption of IFRS to have a material impact on our results of operations, financial position and cash flows.

Recent Accounting Pronouncements

In January 2013, the FASB issued Accounting Standards Update ("**ASU**") No. 2013-01 "*Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*," which clarifies that ordinary trade receivables and payables are not in the scope of ASU No. 2011-11. We are evaluating the effect of the adoption of ASU No. 2011-11 and do not expect any material impact on our results of operations, financial position or cash flows.

In December 2011, the FASB issued ASU No. 2011-12, "*Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.*" This ASU defers changes that relate to the presentation to reclassification adjustments out of accumulated other comprehensive income in ASU No. 2011-05, "*Presentation of Comprehensive Income,*" until the FASB is able to reconsider those paragraphs. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. ASU No. 2011-12 is effective at the same time as the ASU No. 2011-05: for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The adoption of ASU No. 2011-12 in 2012 did not have a material impact on our results of operations, financial position or cash flows

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

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

In June 2011, the FASB issued ASU No. 2011-05, "*Presentation of comprehensive income,*" which amends Topic 220 of the Codification. This ASU increases the prominence of other comprehensive income in financial statements. Under this ASU, an entity will have the option to present the components of net income and comprehensive income in either one or two statements. The ASU eliminates the option in US GAAP to present other comprehensive income in the statement of changes in equity. ASU No. 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The adoption of ASU No. 2011-05 in 2012 did not have a material impact on our results of operations, financial position or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, "*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs,*" which amends Topic 820 of the Codification. This ASU provides guidance for fair value measurements and disclosure requirements and clarifies the Board's intent about the application of existing fair value measurement requirements. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under US GAAP. ASU No. 2011-04 is effective for public entities during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. We adopted the requirements of ASU No. 2011-04 starting from the first quarter of 2012. The adoption of ASU No. 2011-12 in 2012 did not have a material impact on our results of operations, financial position or cash flows.

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

INDUSTRY

Unless indicated otherwise, the market and competitive data in this section has been prepared by REnergyCo. REnergyCo's methodology for compiling historical market estimates is based on a collection of detailed information on the physical activity of individual oil and gas upstream assets. The physical activity is then converted into the OFS market estimates based on the regional price levels for the given period of time. Physical activity levels and price information are collected from various market participants including oil and gas companies' reports, OFS companies' reports and financial data, web placed information and reports of the Russian government agencies and ministries. REnergyCo has established contacts with officials within the industry and conducts regular interviews in preparation of its report. Forecasts are based on known brownfield industry development trends and planned greenfield projects. The forecasts are built on certain macroeconomic assumptions that REnergyCo believes have the highest probability for realization, but as with any forward looking statements, forecasts may materially differ from future events, thus conclusions should be treated with caution.

We confirm that the information provided by REnergyCo 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 7 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 2012 (the "**BP Review**"), Russia's proved oil reserves were estimated at 88.2 billion barrels at the end of 2011, which represents 5.3% of the world's total proved reserves, and Russia's gas reserves amounted to 262.5 billion barrels of oil equivalent ("**BOE**") at the end of 2011 using a standard conversion ratio of 6,000 cubic feet per barrel, which represents 21.4% of the world's overall gas reserves. Russian oil and gas reserves thus represents approximately 13% of the world's combined oil and gas reserves at the end of 2011.

Russia's oil production was estimated by the BP Review to be 10.28 million barrels per day for the year 2011, representing 12.8% of the world's total oil production, an increase of 1.2% over 2010 production. Only Saudi Arabia, with an estimated oil production of 11.16 million barrels per day, produced more oil than Russia in 2011. In addition, Russia's natural gas production was estimated by the BP Review to be 101.16 million BOE in 2011, an increase of 3.1% over 2010. Only the United States, with estimated natural gas production of 108.55 million BOE in 2011, is currently producing more natural gas than Russia. Russian oil and gas production represented approximately 16.0% of the world's combined oil and gas production in 2011.

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 new regions in the early stages of development with large potential in the Northern Caspian region and Eastern Siberia.

Hydrocarbon Production by Region

Western Siberia. The majority of Russia's oil and gas production increase over the past decade in terms of geography come from Western Siberia. In both 2011 and 2012, this region accounted for approximately 62% of the country's oil production and it is well developed in terms of infrastructure and export capabilities. A large share of the production in the region is associated with the TNK-BP-operated Samotlor and the Rosneft operated Priobskoye fields, which, however, are now either at production plateau or in decline. Growing investments into the oilfields through increasing investments in oilfield services and the renewed maintenance of production assets have contributed to the increase in production. 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. In 2012 and 2011, the Volga-Urals region accounted for approximately 22% and 23% of Russian oil production, respectively. 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. The region has significant infrastructure and export pipelines in place, built during the Soviet era.

Timan-Pechora. The Timan-Pechora region accounts for approximately 8% of Russian hydrocarbon reserves. In both 2011 and 2012, the Timan-Pechora region accounted for approximately 5% Russian oil production. 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 began several years ago and there are currently three major fields in production — Vankor, Verkhnechonsk and Talakan — collectively producing approximately 500 thousand barrels of oil per day, equivalent to approximately 5.4% of total Russian oil production in 2011. This is expected to grow to almost 8% by 2016. In 2012, the Eastern Siberia region accounted for approximately 7% of Russian oil production. These developments have required major investments in the pipeline infrastructure in order to export production from these isolated fields to demand centers. Due to a multitude of logistical problems and harsh environmental conditions, the industry has had to apply advanced oilfield services ("**OFS**") technologies. A significant portion of the oil produced in the region is transported directly to China via the East Siberia Pacific Ocean pipeline, with the remainder going to the Kozmino port for seaborne export primarily to Asian destinations.

Market participants in Russia

Excluding state-owned natural gas monopoly Gazprom, Rosneft was the largest producer of crude oil in Russia in 2012. Total Russian crude oil production averaged 10.3 million barrels per day in 2012, an increase of approximately 1% compared to 2011, according to REnergyCo. According to REnergyCo, Rosneft was Russia's largest crude oil producer in 2012, averaging 2.44 million barrels per day, followed by LUKOIL which produced 1.85 million barrels per day, TNK-BP which produced 1.75 million barrels day and Surgutneftegas which produced 1.23 million barrels per day. On March 21, 2013, Rosneft announced the completion of its acquisition of TNK-BP, creating the largest public oil company in the world, when ranked by production and proved reserves.

Whilst the production data is accurate for Russia itself, some Russian oil companies also operate outside of Russia. The production from these foreign operations is not included in the data set forth herein. While 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.

The Russian Oilfield Services Market

Overview

REnergyCo's study sub-divides the core OFS market into multiple segments. However, the market analysis provided in this Prospectus focusses on the segments that are relevant to the Company's core businesses, specifically the provision of drilling and workover 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. This category also incorporates sidetracking.
- Technology services include well completion, fishing, milling, drilling fluids, completion fluids, drill bit programs, cementing, casing, tubing and measurement-while-drilling services. The Company does not participate in this segment directly but provides some of these services via its subcontractors as part of general contractor type based contracts.

Market Size

In 2011, the total Russian OFS market was estimated to be approximately US$20.9 billion and is forecast to rise to approximately US$37.4 billion by 2016, representing a compound annual growth rate ("**CAGR**") of 12.3%. In

2011, drilling services were estimated to have accounted for approximately 36% of the total OFS market, workover and sidetracking were estimated to have accounted for just under 28% of the market while technology services were estimated to have accounted for approximately 22% of the market. The remaining 14% was estimated to have been accounted for by formation evaluation, a segment in which the Company is not active.

In 2011, the Russian OFS market for onshore well construction services (drilling and related technical services), workover and sidetracking services were estimated to be approximately US$16.5 billion and is forecast to rise to approximately US$26.9 billion by 2015, representing a CAGR of 13.1%. In the period from 2011 through 2015, well construction services (drilling and related technical services) are expected to show a CAGR of 14.9% with workover and sidetracking services expected to show a CAGR of 12.6% and 8.3% over the same period, respectively. Expected growth is driven primarily by both higher drilling volumes and increased rates for drilling and workovers as oil companies start to produce more from regions including Eastern Siberia and Timan-Pechora where infrastructure and increased drilling depths, as well as more difficult environmental conditions, result in higher development and production costs.

Market Participants in the Russian OFS Market

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 counterparts, 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 Russian independent, in-house and international providers. The following provides a brief description of the different types of OFS providers in Russia.

Russian Independent Service Companies. 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. 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. These providers operate on a small scale and generally perform basic services at lower prices.

In-House Service Companies. In-house service companies 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. The larger in-house companies are RNGS (Rosneft), Surgutneftegaz, Slavneft and Tatneft Burenie.

International Service Companies. 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, chiefly what is characterized above as 'technology services'.

Market Participants in Drilling

In terms of oil and gas drilling activities, Eurasia Drilling is the most active individual market participant with almost 6,051 thousand meters drilled in 2012, representing an estimated market share of approximately 29%, up from an estimated 25% in 2011, according to REnergy. In-house oilfield service companies continue to account for approximately 40% of meters drilled in 2012, down from almost 60% in 2007. Surgutneftegas retains the most active in-house oilfield service company, accounting for approximately 23% of total meters drilled. Rosneft's in-house oilfield service company is estimated to have been the second-largest in-house driller in 2012 with a market share of slightly under 9%. The other Russian independent oilfield service companies accounted for approximately 31% of the drilling market as measured by meters drilled in 2012. The three largest Russian independent drillers in 2012 were SSK, which had a market share of 7%, RU Energy (which acquired the bulk of Gazprom Neft's oilfield service assets) with 7% and Eriell drilling with approximately 2%. The international service companies accounted for approximately 8% of the drilling market in 2011. Weatherford acquired TNK-BP's in-house drilling assets in 2009 and accounted for approximately 4% of the drilling market as measured by meters drilled in 2012. Schlumberger sold its drilling assets to the Company in 2011. KCA Deutag and Nabors are also present in the market, but have insignificant market shares.

OFS Market by Region

Reservoir characteristics, environmental conditions, logistics, infrastructure 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. In 2011, the average oilfield service cost per barrel in the Russian onshore was approximately US$5.76 and this is expected to increase to US$9.70 per barrel by 2016, representing a CAGR of approximately 11%.

Western Siberia. Western Siberia is the most important oil and gas producing region in Russia and accounts for the majority of drilling and workover 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 2011, the average oilfield service cost per barrel in Western Siberia was approximately US$6.23 and this is expected to increase to US$10.47 per barrel by 2016. In 2011, total onshore drilling expenditure in Western Siberia was US$4.0 billion and is expected to grow to US$7.5 billion by 2016. Expenditure on workover services in 2011 amounted to US$2.8 billion and is expected to increase to US$4.3 billion by 2016.

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. In 2011, the average oilfield service cost per barrel in Volga-Urals was approximately US$4.49, below the average for Russia as a whole, and this is expected to increase to US$7.75 per barrel by 2016. Total drilling expenditure in 2011 is estimated to have been US$1.4 billion, which represented approximately 16% of such expenditure in Russia, and is expected to increase by 91% to US$2.6 billion in 2016. The maturity of the region means that it is a heavy consumer of workover services and it is estimated that over US$700 million in workover services was invested in 2011. These services are expected to grow to US$960 million by 2016.

Timan-Pechora. Timan-Pechora is located in the far north of Russia and delivery of drilling and workover services is challenging, both from a technical and logistical perspective due to harsh weather conditions. Approximately 5% of Russia's oil production originated from this region in 2011, although the full potential of the eastern part of the basin located in the Nenetsk Autonomous Oblast is unknown. In 2011, the average oilfield service cost per barrel in Timan-Pechora was approximately US$3.73, well below the average for Russia as a whole, reflecting a pause in activity levels as LUKOIL attempts to deal with difficult geological conditions at its Yuzhno-Khylchuyu field. This is however expected to increase substantially to US$7.10 per barrel by 2016 as Bashneft progresses with the development of the greenfield Trebs and Titov fields. Total drilling expenditure in 2011 is estimated to have been US$350 million, which represented approximately 5% of such expenditure in Russia, and is expected to increase by over 130% to US$830 million in 2016. At this point, the region is not a heavy consumer of workover services and it is estimated that less than $100 million was invested in workover services in 2011. These services are expected to grow to US$180 million by 2016.

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. In 2011, the average oilfield service cost per barrel in Eastern Siberia was approximately US$13, over double the average for Russia as a whole, and this is expected to increase to US$15.50 per barrel by 2016. Total drilling expenditure in 2011 is estimated to have been US$1.7 billion, the second-most investment intensive region in Russia, reflecting the early-stages of development and the high cost of the wells, most of which are drilled horizontally. This is expected to increase by over 75% to US$2.9 billion in 2016 as companies such as Rosneft and Surgutneftegas extend the developments in Vankor, Verknechonsk and Talakan. At this point Eastern Siberia is not a heavy consumer of workover services and it is estimated that just over US$110 million was invested in workover services in 2011. These services are however expected to grow to US$570 million by 2016.

Other regions. Outside the main oil and gas producing regions in Russia, additional production is located in the Northern Caucasus, the Caspian Sea and Sakhalin. Other minor production activities exist throughout the country. LUKOIL has begun production at its Yuri Korchagin field from a fixed offshore platform and has ambitious plans to increase production in the Caspian Sea over the coming five years. It is possible that some exploration drilling may take place within the Arctic Sea within the next five years, following Rosneft's recently announced joint ventures with international oil companies, ExxonMobil, Statoil and ENI, however this will depend on the results of seismic surveys which are planned for 2014 and 2015. Over the next five years, these regions are expected to see growth of 70% in drilling activity and 47% in workover services.

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 depend 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.

The average depth of wells drilled onshore in Russia has been increasing in recent years. The average depth of an onshore well drilled in 2005 was 2,410 meters, by 2011 this had increased to 2,930 meters and it is expected that average well depths will continue to increase in the future. Deeper wells will require heavier and more modern rigs.

Of the total Russian onshore OFS expenditures in 2011, drilling rig and crew, including mobilization and assembly, accounted for approximately 36%. A fairly constant increase in expenditures is expected in the market for drilling and associated services, growing from US$7.4 billion in 2011 to US$14.1 billion by 2016, representing a 13.7% CAGR. It is expected that there will be significantly greater growth in the market for horizontal drilling, which is estimated to have been worth US$1.2 billion in 2011 and is expected to grow at a CAGR of almost 24% to 2016.

The total volume of exploration and production drilling in Russia is estimated to have been 19.2 million meters in 2011 and is expected to increase to approximately 27.2 million meters in 2015. These growth projections are consistent with an expectation that Russian oil production will continue to grow to 10.8 million barrels per day in 2015. 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 drilling market size in US dollar terms. Horizontal drilling volumes in Russia are also expected to increase from 2.2 million meters in 2011 to 4.4 million meters in 2015.

Of the total meters drilled in 2011, approximately 83% were in Western Siberia, 10% in Volga Urals, 4% in Eastern Siberia, with the remaining 3% drilled in other regions. It is expected that there will be significantly higher growth in meters drilled in greenfield regions, such as Eastern Siberia, than in the more mature regions.

Of the estimated 19.2 million meters drilled in Russia in 2011, the Company accounted for approximately 25%. This makes the Company the largest independent participant in the market. Beyond the Company, some of the larger independents and the in-house service companies, the market appears fragmented, with many smaller market participants largely servicing individual local regions.

Workover and Sidetracking Services

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. Sidetracking involves the use of a specialized rig to re-drill from an existing borehole, often in a deviated or lateral direction, and has become popular in Russia as the marginal benefits of hydrofracturing existing wells has diminished.

Expenditures in relation to workover and sidetracking rig and crew accounted for approximately 28% of total Russian onshore OFS expenditures in 2011 and are expected to grow from approximately US$4.2 billion in 2011 to approximately US$6.2 billion in 2016, representing a CAGR of approximately 8.3%. The bulk of the increase in the market size is primarily attributable to an increasing need to find cost effective solutions to sustaining production in Western Siberia. Workover and sidetracking activity is also expected to increase in the greenfield regions as some of the early wells in the new developments at Vankor and Talakan will require maintenance.

The number of well servicing jobs and workovers has declined over the past ten years, primarily as a result of technological and efficiency 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. Roughly 130,000 workover and well servicing operations are estimated to have been carried out in Russia in 2011 and this number is expected to increase to around 140,000 by 2016, assuming a relatively similar rate of increase in the production well stock over the same period. For purposes of the REnergyCo 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.

Technology Services

Technology services include well completion, fishing, milling, drilling fluids, completion fluids, drill bit programs, cementing, casing, tubing and measurement-while-drilling services. The Company previously provided certain technology services, such as, for example, completion and drill bit management, as part of its drilling services offering, however these services were sold to Schlumberger in 2011. The market for these services is expected to increase from an estimated value of approximately US$4.6 billion in 2011 to approximately US$8.9 billion by 2016, representing a 14% CAGR.

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 region, where costs are currently higher, and the Timan-Pechora region where costs are expected to increase the most. The lack of regional logistics and extreme conditions require more specialized techniques and equipment, resulting in increased OFS 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.
- *Declining productivity*. As a mature oil production region, the brownfields of Western Siberia and Volga Urals are now heavily depleted, suffering from high water-cuts and deteriorating well productivity. The efficacy of hydro-fracturing has fallen dramatically and with well productivity falling by 8% on average, drilling volumes need to increase by more than 8% just to keep production stable, all other things being equal.
- *Increasing complexity*. As drilling activity has grown in the past few years, the Company has observed some clear trends emerging. With the shallower layers substantially exploited and with new technologies available, oil companies are seeking to drill ever deeper wells. Additionally, the Company has observed a strong increase in horizontal drilling in the past three years in particular. This increasing complexity would suggest that a younger, more mobile and heavier rig fleet will be required to drill these more complex wells.
- *Russia's ageing rig fleet*. Many existing onshore drilling rigs in Russia are approaching the end of their 25 year useful lives, as there have been very few additions to the rig fleet over the past 20 years. There are fewer rigs available that are capable of drilling the deeper and more complex wells that are being demanded by customers. The Company estimates that approximately 75% of the Russian rig fleet only have the capability of drilling to a maximum depth of 3,000 meters. As a result the Russian drilling industry will require significant investment in new rigs with deeper drilling capability over the coming five to ten years.

BUSINESS

Overview

We are the largest provider of onshore drilling services in Russia, as measured by the number of meters drilled, according to REnergyCo. We also provide offshore drilling services in the Caspian Sea and are the largest provider of such services in the sectors where we operate, based on the number of jack-up drilling rigs, according to Wood Mackenzie. We offer our onshore integrated well construction 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. In addition, we provide onshore drilling services in Iraq. As of December 31, 2012, our total land fleet consists of 670 onshore drilling, sidetracking and workover rigs and our offshore fleet consists of two jack-up rigs.

For the year ended December 31, 2012, we had total revenue of US$3,237 million, EBITDA of US$790 million and net income of US$382 million, compared to total revenue of US$2,767 million, EBITDA of US$603 million and net income of US$283 million for the year ended December 31, 2011 and total revenue of US$1,822 million, EBITDA of US$437 million and net income of US$207 million for the year ended December 31, 2010.

Our business is currently organized into two main divisions: onshore and offshore drilling services. For the year ended December 31, 2012, we had total revenue of US$3,071 million from our onshore division and total revenue of US$166 million from our offshore division.

For the year ended December 31, 2012, we had an estimated market share of approximately 29% of the onshore drilling services market in Russia, as measured by the number of meters drilled, compared to 25% for the year ended December 31, 2011, according to REnergyCo. Our onshore fleet of 253 land drilling and sidetracking rigs are located in all major Russian oil and gas producing regions, including Western Siberia, Volga-Urals, Eastern Siberia and Timan Pechora. In all these regions we have well-established land support bases. We have expanded our Russian onshore drilling business organically since acquiring substantially all of LUKOIL's onshore drilling assets in 2004. Since our entry into the onshore drilling services, we have transformed the business from an in-house cost center to a major independent oilfield service provider with sound finances and materially improved operating efficiency. 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 6,400 meters. In addition, we provide a wide range of onshore workover and sidetracking services. As of December 31, 2012, our total workover fleet consisted of 413 workover rigs.

In April 2011, we entered into a strategic alliance in Russia and the CIS with Schlumberger, pursuant to which Schlumberger became our preferred supplier for certain drilling services for a five-year period. This transaction also involved an asset swap pursuant to which we acquired Schlumberger's drilling, sidetracking and workover assets in Russia and sold them certain of our non-core drilling businesses and assets to streamline our services portfolio. The transaction positively contributed to our operational and financial results.

Our customers include a number of major Russian and international oil and gas companies operating in Russia, such as LUKOIL, Rosneft, Gazprom Neft, TNK-BP, Repsol, Arctic Gas, Rusvietpetro, Pechoraneft, Russneft and Tomskneft.

We entered the international drilling market outside the CIS for the first time in the second half of 2012. We acquired three land drilling rigs from an existing drilling contractor and in late 2012 added a fourth rig in Iraq. All four rigs are contracted to international oil and gas companies: Afren, Gulf Keystone, HKN and Marathon Oil.

For the year ended December 31, 2012, we operated two of the three jack-up rigs operating in the Russian, Kazakh and Turkmen sectors of the Caspian Sea, according to Wood Mackenzie. We entered the offshore drilling business in 2006 by acquiring the *ASTRA* jack-up rig from LUKOIL. Since 2009, we have provided our drilling services on LUKOIL's marine ice-resistant fixed platform LSP-1 on the Yuri Korchagin field in the Russian sector of the Caspian Sea. In 2011, we acquired our second jack-up rig, the *SATURN,* from Transocean. Our offshore drilling services division constructs oil and gas exploration and production wells in waters with depths of up to 107 meters. In addition, we have two new-build jack-up rigs that are in the process of being constructed by Lamprell plc, the *NEPTUNE* and the *MERCURY* rigs, with delivery scheduled for the third quarter of 2013 and the fourth quarter of 2014, respectively.

Our offshore customers in the Caspian Sea have included LUKOIL, Petronas, Dragon Oil, CMOC (a joint venture between Shell, KazMunayTeniz and the Oman Pearls Company Ltd) and the N Operating Company (a joint venture between KazMunayGas, ConocoPhillips and Mubadala).

Competitive Strengths

We believe our key competitive strengths are as follows:

Largest onshore drilling contractor in Russia and only Russian offshore drilling contractor

We are the largest onshore drilling contractor in Russia, as measured by the number of meters drilled, according to REnergyCo. In the years ended December 31, 2012, 2011 and 2010 we drilled 6,051 thousand meters, 4,777 thousand meters and 4,103 thousand meters, respectively, of onshore oil and gas wells, compared to 1,699 thousand meters in the year ended December 31, 2005 (the first year of our operations as an independent company). As of December 31, 2012, we had an estimated market share of approximately 29% of the Russian onshore drilling market, compared to 25% for the year ended December 31, 2011, 23% for the year ended December 31, 2010, 22% for the year ended December 31, 2007 and 17% for the year ended December 31, 2005, as measured by the number of meters drilled, according to REnergyCo. The scale of our operations 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 LUKOIL, Rosneft, Gazprom Neft and TNK-BP, 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 customers' requirements and ability to provide a full range of drilling services through our vast asset base, qualified personnel and logical geographic positioning of our operations and support infrastructure.

We are also the only Russian offshore drilling contractor in the jack-up market of the Caspian Sea according to Wood Mackenzie. Our *ASTRA* and *SATURN* jack-up rigs currently represent two of the three jack-up rigs operating in the Russian, Kazakh and Turkmen waters of the Caspian Sea, according to Wood Mackenzie. We expect our capacity and technical capability to increase and improve following the delivery of our new jack-up rigs, the *NEPTUNE* and the *MERCURY*, in the third quarter of 2013 and fourth quarter of 2014, respectively.

High-quality asset base with a technically advanced rig fleet

As of December 31, 2012, our rig fleet comprised 253 land drilling rigs and 413 workover rigs in Russia. According to Douglas Westwood, 59% of rigs in Russia have been in operation for more than 20 years and the average age of rig fleets in the Russian industry is 16 years. We have a comparatively young fleet in Russia: the average age of our rig fleet is 12 years, 34% of our rigs have been in operation for less than five years, 15% of our rigs have been in operation for less than ten years, 18% of our rigs have been in operation for between 10 to 20 years and only 33% of our rigs have been in operation for more than 20 years. As a result of our rig fleet upgrade and modernization plan, we estimate that by 2015, 65% of our rigs will have been in operation for less than ten years and approximately 19% of our rigs will have been in operation for more than 20 years. Over two-thirds of our drilling and sidetracking rigs are powered by electricity, using less energy and producing fewer carbon dioxide emissions than mechanically powered models. Our rig fleet has an average drilling depth of 3,500 meters and possesses a range of technical characteristics that allows us to drill a wide range of oil and gas wells, including vertical, deviated, horizontal and extended reach wellbores up to 6,400 meters. Our drilling rig fleet is distributed among each of the key oil producing regions of Russia, enabling us to respond quickly to shifts in demand from customers.

We are also continually seeking to improve our rig fleet. For example, our previous joint venture with Le Torneau allowed us to assemble the high specification Yermak rig (see "— Onshore Drilling Services — Equipment and Technologies") at LUKOIL's Kaliningrad facility. In 2012, maintenance capital expenditures were approximately US$179 million. We intend to spend similar amounts on maintenance capital expenditure in 2013.

Long-term agreements with key customers providing visible revenue streams

We have long-term agreements with our key onshore and offshore customers. The forward visibility on revenue and operations as a result of these agreements allows us to implement a long-term investment program and to strengthen our reputation as a trustworthy drilling contractor capable of undertaking large-scale drilling projects.

In January 2010, we signed our second three-year onshore drilling framework agreement with LUKOIL which included a commitment to drill 6,700 thousand meters for LUKOIL. LUKOIL was our largest customer in the year ended December 31, 2012 and accounted for 57% of our total onshore drilling volumes. In December 2012, we signed our third onshore drilling framework agreement with LUKOIL for a three-year period which commenced in January 2013. The latest framework agreement includes a commitment to drill 7,550 thousand meters for LUKOIL and also includes changes from the previous framework agreements to enable us to drill more complicated wells for LUKOIL on a day rate basis. The latest framework agreement places us in a strategic position to capitalize on LUKOIL's long-term focus on drilling an increasing number of complicated wells in greenfield locations with complex geological features such as deeper reservoirs. In addition, in 2010, we entered into a five-year workover framework agreement with LUKOIL. This workover framework agreement includes a guaranteed volume of workover services to be provided during the five-year term. We believe that LUKOIL will continue to look to us to provide a substantial portion of the drilling and workover services required by its upstream operations. We have also signed a three-year onshore drilling agreement with TNK-BP in 2012 for the provision of our services in the Volga Urals regions.

In January 2013, we began working under a three-year offshore drilling agreement with Petronas, which provides for full utilization of the *SATURN* jack-up rig between 2013 and 2015. In 2012, we entered into a five-year offshore agreement with LUKOIL for drilling services on LUKOIL's Yuri Korchagin LSP-1 platform in the Caspian Sea.

Diverse geographical presence in key oil and gas producing regions of the Russian Federation

We have a well-developed infrastructure with operating bases in the key oil and gas production locations in Russia, including traditional centers such as Kogalym, Usinsk, Samara, Perm and Astrakhan. From our operating bases, we are able to support the mobilization of our drilling equipment and crews to existing and new customers. As a result of our drilling experience in remote and geographically diverse areas of Russia, we have gained in-depth knowledge of the geology and the related drilling complexities of such areas, which allows us to compete more effectively with other Russian and international drilling contractors. Furthermore, our historical focus on Western Siberia, which, according to REnergyCo, as of December 31, 2011, accounted for over 62% of Russia's oil production, provides a solid base for the stable future development of our business.

Significant barriers to entry

Our established position in the Russian oilfield services market, set against an industry in which key customers are concentrated, presents significant barriers to entry for new entrants seeking to penetrate the Russian oilfield services market. Further barriers to entry for new entrants include significant time and investment required to adapt to, and deliver drilling rigs and assets to, challenging geo-climatic areas, complexities in building up local infrastructure and integrating drilling rigs and assets, long lead-times to reach our level of capacity and expertise and general bureaucratic obstacles. We believe that new entrants that do not have strategic relationships, such as our relationship with LUKOIL, or links to existing market participants find it difficult to compete with us.

Strong financial performance and balance sheet

We have consistently achieved strong financial performance and maintain a strong balance sheet despite volatile markets. We have increased our EBITDA from US$436 million for the year ended December 31, 2010 to US$605 million for the year ended December 31, 2012. Our EBITDA margin has also increased from 11.9% in the year ended December 31, 2005 to 24.4% in the year ended December 31, 2012. We have maintained a consistent net debt to EBITDA ratio of less than 0.50, despite a substantial capital expenditure program. Our conservative financial management affords us the flexibility and resources to make opportunistic acquisitions and to expand our business.

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 36 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.

Strategy

The key components of our strategy are as follows:

Continue to grow our business organically and through selective acquisitions

We intend to continue to grow our business to maintain our leadership position as the largest provider of drilling services in Russia (both onshore and in the jack-up rig market of the Russian, Kazakh and Turkmen sectors of the Caspian Sea). We will grow by continuing to invest in the upgrading and improvement of our rig fleet and by continuing to adopt new drilling technologies to satisfy our customers' demand for more technologically advanced and complex services. As demand for offshore drilling services in the Caspian Sea continues to increase, we intend to grow our offshore business organically, by acquiring additional jack-up drilling rigs. Additionally, we may expand our asset base and geographical presence by targeted acquisitions, including joint ventures with strategic partners that meet our investment criteria.

Russia's strategy to maintain current oil production levels is driving higher drilling volumes. There will be an increase in demand for infill drilling, workover and sidetracking services in the onshore market as production from mature brownfield sites decreases. Consequently, incremental oil production in Russia is expected to come from the onshore greenfield regions of Eastern Siberia, Timan Pechora, Yamal and the offshore Caspian Sea. Operating in these regions involves the drilling of deeper, longer and more complex wells which will require heavier and more modern rigs. We will capitalize on these structural trends by continuing to invest in and modernize our rig fleet, focusing on workover and sidetracking services and considering strategic acquisitions to strengthen our capacity and capability in these growth areas. We have also signed a memorandum of understanding with LUKOIL to investigate the tight oil opportunity in Russia. This involves us providing LUKOIL with drilling capabilities required for exploring and developing reservoirs with low-permeability.

We are also increasing the volume of our services to customers other than LUKOIL. For example, Rosneft's share of our total drilling volumes increased from 11% in the year ended December 31, 2010 to 24% in the year ended December 31, 2012. Rosneft became our second largest customer in the year ended December 31, 2012 as a result of our acquisition and consolidation of SGC-Drilling from Schlumberger and the organic growth of BKE's drilling volumes for Rosneft. For the year ended December 31, 2012, LUKOIL accounted for 57% of our total onshore drilling volumes, (compared to 76% in the year ended December 31, 2007), Rosneft accounted for 24% (compared to 8% in the year ended December 31, 2007), Gazprom Neft accounted for 10% (compared to 15% in the year ended December 31, 2007), TNK-BP accounted for 2% (with no business being done for TNK-BP in the year ended December 31, 2007), and other oil and gas companies accounted for 7% (compared to 1% in the year ended December 31, 2007).

In the second half of 2012, we entered the onshore drilling market outside the CIS by acquiring four active drilling rigs in Iraq. We continue to evaluate acquisition opportunities for international land drilling contractors, with a strategic focus on the Middle East region, the third largest oilfield services market in the world.

Wood Mackenzie forecasts that the number of offshore wells could increase by at least 39% over the next eight years. There is currently an acute rig shortage in the Caspian Sea market, with most rigs locked into long-term contracts and unavailable for new drilling projects. Our *ASTRA* and *SATURN* rigs, which are currently in operation, and our new *NEPTUNE* and *MERCURY* rigs, which will soon be delivered, place us in a strong position to meet a portion of the demand for offshore drilling in the jack-up market of the Caspian Sea. We will also consider long-term opportunities for expanding our offshore business in other areas of the Russian continental shelf, such as the northern offshore waters.

Maintain our focus on innovation and efficiency

We have achieved our strong financial performance by constantly improving the operating efficiency of our crews. Our drilling crews have increased the meters drilled per crew per day from approximately 69 in 2005 (the first year of our operation as an independent company), 85 in 2007 and 102 in 2011 to over 110 in 2012; while maintaining industry health and safety standards. Our "lost time to injury" rate has consistently been lower than the global rate, according to the International Association of Drilling Contractors. We will continue to invest in crew training to enhance operating efficiency. In 2012, we hired the Aberdeen Drilling School to perform in-house drilling optimization training. We also maintain an employee incentivization program. Improved efficiency has also been achieved as a result of the increased utilization of our rigs. Our drilling fleet utilization has improved from approximately 56% in 2005, 78% in 2007 and 77% in 2011 to approximately 85% in 2012 and we will continue to seek to improve utilization by investing in faster moving, more mobile rigs, by implementing our one rig/one crew strategy and by migrating from crew-based scheduling to rig-based scheduling. In addition, we will continue to optimize our support organization by divesting transport and well services, consolidating support bases and focusing on supply chain rationalization.

Exploit our leadership position and the unique characteristics of the Russian market

We have been a first-mover in many strategic areas of the Russian market. For example, we were one of the first OFS providers to become an independent company and subsequently adopted strategies such as our fleet upgrade and modernization policy that have led to our leadership position in terms of capability, capacity, efficiency and innovation. We were also the first Russian company to streamline our services portfolio to focus on high value complex drilling, workover and sidetracking services and to divest our low value well services such as drilling fluids, directional drilling and cementing services.

We believe our rig modernization program allows us to secure favorable delivery and price terms for rigs with rig manufacturers. For example, we purchased drilling rigs in 2010, as part of our five year rig fleet upgrade and modernization plan, produced by Russian and Chinese manufacturers, at prices significantly lower than those paid in 2008 and with shorter lead times. We have also recently secured access to a rig manufacturing facility in Kaliningrad which should allow us to refurbish some of our older rigs at a relatively lower cost.

The business and operating models employed in the Russian onshore drilling industry also have some important distinctions from the business and operating models of other international onshore drilling markets. For example, the long-term contract model that is more prevalent in the Russian market insulates us from some of the price and margin volatility that our other international competitors are exposed to as a result of the spot rate contract model prevalent in markets outside of Russia. Another characteristic of the Russian market is the significant share of in-house operators and small independent participants. Many of them are capital constrained and are driven by volume and quota requirements rather than the desire to increase capital efficiency. Our business model allows us to provide more efficient services to our customers and consequently capture a bigger share of the drilling market.

Build partnerships with our customers and become their preferred partner

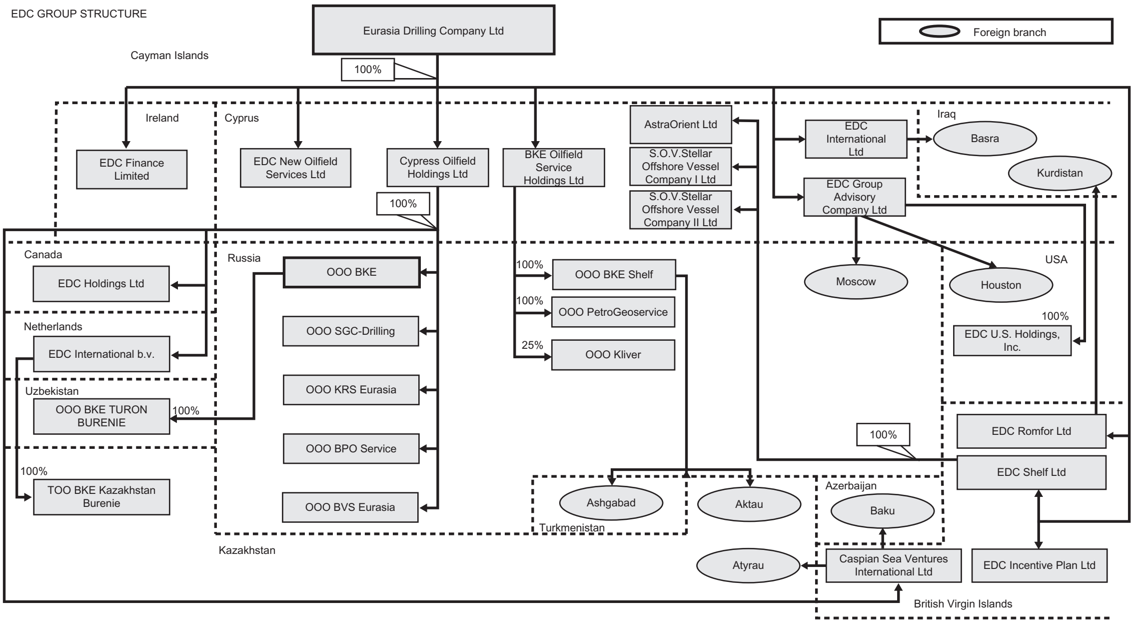
We will focus on maintaining our advantage over our competitors by anticipating our customers' evolving demands and requirements and becoming their preferred partner. For example, because the rig fleet for Russia as a whole is dominated by static, basic and ageing rigs that cannot drill beyond 3,000 meters. We have been investing in younger, heavier and more versatile rigs that put us in a strong position to capture an increasing share of the more complex wells that our customers will require. Our strong relationship with our key customers also allows us to adapt and evolve our contracting models to more effectively allocate risks and responsibilities to the mutual benefit of all parties. For example, we have long-term contracts that minimize price and margin volatility, turnkey contracts for standard drilling solutions and are gradually transitioning to day rate contracts for complex drilling. For more information on our contracts, see "— Onshore Drilling Services — Contracting."

Expand our capabilities to provide high value-added services

We will continue to expand our portfolio of core high value-added and high quality services such as, horizontal, underbalanced and extended reach drilling. During the period from 2010 to 2012, we added 20 new drilling rigs and performed an upgrade of two older rigs that extended the life of those rigs. Through our transaction with Schlumberger in 2011, we added significant additional drilling, sidetracking and workover capacity by purchasing rigs that were in good condition and of a similar age as the rest of our rig fleet. As part of this transaction, we also divested our non-core businesses, such as directional drilling and measurement, cementing and drilling fluids to Schlumberger, which are now provided to us and our customers by Schlumberger under a five-year master services agreement pursuant to our strategic alliance. This allows us to focus on expanding the delivery of core high value-added, high quality services at greater efficiencies and to capture future projects that are closely aligned with Schlumberger's product lines.

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.



We have made a number of acquisitions of sidetracking and workover businesses in recent years. As a result, we intend to reorganize our group so that specific companies are responsible for different business lines. While our plans remain subject to change, our current expectation is to move all our sidetracking businesses into BVS-Eurasia, which we established in 2012, and all our workover businesses into OOO KRS Eurasia, which we established in 2010. We also plan to consolidate all our internal repair workshop units into OOO BPO-Service.

Business

We are the largest provider of onshore drilling services in Russia, as measured by the number of meters drilled, according to REnergyCo. We also provide offshore drilling services in the Caspian Sea and are the largest provider of such services in the sectors where we operate, based on the number of jack-up drilling rigs, according to Wood Mackenzie. 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. In addition, we provide onshore drilling services in Iraq. 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, construction, sidetracking and workover of oil and gas wells. Our onshore drilling and construction services are carried out in Russia by BKE through its Western Siberian, Perm, Nizhnevolzhsk (which will be relocated to Samara) and Usinsk branches, and by SGC-Drilling through its Nefteyugansk and Streshevoy branches. Our sidetracking services are carried out by BKE through its Perm branch and by SGC-Drilling through its Kogalym branch in Western Siberia. While our plans remain subject to change, our current expectation is to move all our sidetracking businesses into BVS-Eurasia. Our workover services are mainly carried out by OOO KRS Eurasia through its Usinsk, Krasnoyarsk, Nizhnevartovsk and Urai branches. The limited onshore drilling services that we provide outside of Russia are carried out by BKE Kazakhstan Burenie in Kazakhstan, BKE Turon Burenie in Uzbekistan and EDC International Ltd. in Iraq.

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 6,400 meters.

Below we present the number of wells constructed and the number of meters drilled by our onshore drilling services division for the years ended December 31, 2012, 2011 and 2010.

	Year ended December 31,		
	2012	2011	2010
Total wells drilled	2,056	1,586	1,423
Total meters drilled (thousands)	6,051	4,777	4,103
of which production drilling (thousands)	5,785	4,581	4,000

By way of comparison, for the year ended December 31, 2005 (the first year of our operation as an independent company), we drilled 1,699 thousand meters and 652 wells. In the years ended December 31, 2007, 2008 and 2009, our drilling volumes were 3,269 thousand meters, 4,041 thousand meters and 3,753 thousand meters, respectively.

Below we present the number of horizontal meters drilled by our onshore drilling services division for the years ended December 31, 2012, 2011, 2010, 2009, 2008 and 2007.

Total Horizontal Meters Drilled (in thousand meters)

Year ended December 31,					
2012	2011	2010	2009	2008	2007
862	879	437	337	298	305

Following is a brief description of the main types of wells that 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, the interpretation and assessment of 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 by one or more exploration wells. Appraisal wells are used to gather subsurface geological and reservoir data in order to prepare models to assess the presence of sufficient volumes of hydrocarbons, the capital investment required and the projected financial returns, in order to justify production. If the results of an assessment are positive, such wells are usually 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 for injection of fluids into the reservoir to enhance pressure to support production.

The surface location of a well, and surface locations in the case of well clusters, are chosen as the position that provides the most logical and economic 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 longer intervals of the target reservoir in order to increase production rates and ultimate recovery 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 minimize 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 at a high angle and horizontally for many kilometers, minimize the amount of surface infrastructure, allowing a greater reservoir area to be developed from a single well or well clusters. The well design will determine the appropriate drilling rig to be mobilized.

The key task that our drilling rigs and crews typically complete in order to bring oil from a subsurface hydrocarbon reservoir into production involves 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.

This involves setting up the mast (derrick) and substructure, rotating equipment and a top drive. The drill floor is also equipped with a control room for all rig functions including assembling the bottom hole drilling assembly, hoisting the pipe, joining the pipe, operating the rig pumps and the equipment to make and break the drill pipe and casing connections so the pipe can be joined together or broken apart as it is tripped in and out of the well. Mud pumps are also set up to circulate drilling mud down the drill pipe and mud returns back to the surface through the exterior of the drill pipe. Mud mixing and storage tanks provide a steady supply of mud mixed with the correct physical and chemical properties. Each drill rig is operated by a drilling crew operating 12 hour shifts to keep the rig running continuously. The drilling crew consists of the master, who has overall control and responsibility of the rig's operations, the driller, who operates the rig controls and various specialists who operate the other key components of the rig under the direction of the driller. The drilling crew typically includes a mechanic and an electrician who maintain the rig to ensure maximum uptime. A rig camp is set up close to the well site to provide accommodation and facilities for the rig crew.

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 customers for the provision of their respective services.

- **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.
- **Logging**. Logging tools, which are designed to measure a variety of physical properties of the formation around the wellbore and the wellbore itself, are lowered into the borehole by a hoisting unit outfitted with a wireline with electrical conductors. These electrical logging tools take physical measurements and transmit the data to surface recording units. Such measurements include resistivity, acoustic and nuclear magnetic resonance logs, which allow the geological and petro-physical properties of the reservoir to be determined. In recent years, electrical logging tools have been re-engineered to be integrated with the bottom hole assembly of the drill string. The re-engineered electrical logging tools allow logs to be run simultaneously with the drilling process. This method of "logging while drilling" is used where conventional wireline conveyed logging is not possible in the case of high-angle and horizontal wells.
- **Casing and cementing**. Casing 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. The cement slurry that is pumped into the well contains special chemical compositions that are designed to provide a mechanical and hydraulic seal between the casing and the borehole wall in order to isolate the strata of the well to prevent fluids from flowing between various strata or to the surface.
- **Well completion services**. Once a well has been drilled by the drilling rig and crew, the drilling rig is moved off the well and a completion/workover rig and crew is mobilized to the newly drilled well. The well is then completed by performing various downhole operations to prepare the well 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.
- **Perforations**. Using jet perforating guns and explosive charges, perforations are made through the production casing and into the reservoir to enable oil and gas to flow into the production string. Perforations are made at intervals to optimize production from the well.
- **Hydrofracking and acidizing**. This procedure involves pumping propants or acid into rock formations to open the fractures in wells more effectively. Hydrofracking is performed using propants on sandstone (clastic) reservoirs and acidizing is performed on carbonate reservoirs, usually as a critical part of the completion or workover process and at regular intervals throughout the production life of a well. They are performed to stimulate and enhance production from a well and can be performed on newly drilled and perforated wells or on existing wells with sub-optimal production. This stimulation procedure connects the wellbore via the perforations to deeper and larger areas of the reservoir. This

requires the existing tubing be pulled from the well and a "work string" to be run with a downhole packer which isolates the production casing from the potentially high pressures involved when fracturing the reservoir rock. Once the procedure is completed, the work string and downhole packer are pulled from the well and the production tubing complete with a downhole pump are run into the well.

- **Subsurface pumping**. In most oil producing wells in Russia, hydrocarbons do not flow naturally to the surface. As a result, subsurface pumps are required to artificially lift the hydrocarbons to the surface. The pumps used for subsurface pumping include sucker rod pumps, electrical subsurface pumps, cavity pumps and jet pumps, amongst others. The pumps are normally installed as the last step in new well completions on the bottom of the production tubing.

- **Production tubing**. Following the installation of the casing, and often, following the perforation job, the production tubing is inserted through the length of the wellbore to the production horizon with a downhole pump in order to carry hydrocarbons from the reservoir to surface production facilities. In cases where wells have adequate reservoir pressure to allow the hydrocarbons to flow to the surface, production tubing is often connected to the downhole completion hardware employed to complete the production string. The completion hardware may consist of a permanent production packer, a series of packers, or special liner hangers.

Workover. A workover is the process of maintaining, repairing or enhancing production from a well through various means. Most workovers require the production tubing string to be pulled from the well by the workover rig in order to repair the defects that may be causing sub-optimal well production. The production tubing is inserted back into the well once the defects have been repaired. In some cases, a workover is performed in order to carry out hydrofracking and acidizing as described above.

Below we present the number of workovers performed by our onshore drilling services division and the total number of workover crew hours for the years ended December 31, 2012, 2011 and 2010 (including subcontracted crews).

	Year ended December 31,		
	2012	2011	2010
Number of workovers performed	12,733	11,368	10,901

The following are common workover tasks that we perform.

- **Subsurface pumping**. As mentioned above subsurface pumps are required in the vast majority of the onshore oil producing wells in Russia. These pumps have a finite life and are routinely replaced, on average, every 12 months.

- **Remedial cementing**. Frequently, cementing operations are carried out on existing wells to shut off water or unwanted gas production.

- **Tubing replacement**. Most workovers require the production tubing string to be pulled from the well. As a result, production tubing needs to be replaced as part of the workover 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 materials such as corrosive water, sand, scale, tar and wax which 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.

- **Additional perforations or re–perforation**. In certain oilfields it is possible to perforate additional intervals in hydrocarbon bearing reservoirs to increase production rates. In other reservoirs it may be possible to re-perforate an existing perforated interval that has become closed. New technologies also allow for deeper penetrating perforating charges.

Sidetracking. We also offer a specialized 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 mobile drilling rigs with lifting capacity of approximately 80 to 160 tonnes. As of December 31, 2012, our sidetracking fleet consisted of 46 sidetracking rigs.

For the years ended December 31, 2012, our onshore drilling services division performed 225 sidetracks, which included 190 sidetracks in Western and Eastern Siberia and 35 sidetracks in Volga-Urals. For the years ended December 31, 2011 and 2010, our onshore drilling services division performed 226 and 39 sidetracks, respectively.

Equipment and Technologies

As part of our transaction with Schlumberger in 2011, we acquired 19 drilling rigs, 23 sidetracking rigs and 34 workover rigs currently operating in Western Siberia. As of December 31, 2012, our total land drilling rig fleet consisted of 257 land drilling and sidetracking rigs and 413 workover rigs, with lifting capacities of between 80 and 450 tonnes, operated by 167 drilling crews and 240 workover crews and 31 sidetracking crews. As of December 31, 2012, we also had 62 completion crews and 44 rig-up crews.

In 2010, we assembled one high specification heavy drilling rig, the "Yermak," in Kaliningrad through our joint venture with Le Tourneau. The Yermak rig provides high capacity and high specification drilling services for both single well and mono row cluster applications. It has many novel design features enabling it to be rapidly moved between wells on clusters with multi row wellhead locations without disconnecting from its power supply or remote mud block. It is also an "Arctic Service" rig that can drill the most complex wellbores currently planned for the onshore Russian drilling market where we operate.

The following table summarizes the technical specifications of the drilling and sidetracking rigs in our fleet as of December 31, 2012.

Type	Mast Load Capacity (tonnes) Drilling Depths (km)	Light 80-125 Up to 2	Light 160-180 Up to 2.5	Medium 200-225 Up to 3.2	Medium 250-270 Up to 4.5	Heavy 320-332 Up to 5	Heavy 400-450 Up to 6.4	Total
Mobile	Mechanical	27	11	6	0	0	0	44
	Electric	0	2	0	0	0	0	2
	All types	27	13	6	0	0	0	46
Stationary	Mechanical	2	10	6	1	19	1	39
	Electric	0	0	2	0	18	2	22
	All types	2	10	8	1	37	3	61
Pad / Cluster	Mechanical	0	0	0	0	0	3	3
	Electric	11	9	94	11	21	1	147
	All types	11	9	94	11	21	4	150
Total	**Mechanical**	**29**	**21**	**12**	**1**	**19**	**4**	**86**
	Electric	**11**	**11**	**96**	**11**	**39**	**3**	**171**
	All types	**40**	**32**	**108**	**12**	**58**	**7**	**257**

By comparison, we had a total of 258 drilling and sidetracking rigs as of December 31, 2011, 211 drilling and sidetracking rigs as of December 31, 2010, 195 drilling and sidetracking rigs as of December 31, 2007 and 180 drilling and sidetracking rigs as of December 31, 2005.

The following table summarizes the technical specifications of the workover rigs in our fleet as of December 31, 2012.

Mast Height (meters)	Mast Load Capacity (tonnes)	Draw works Capacity (horse power)	Quantity	Rig Life <10 years	Rig Life >10 years
17.7 – 22	up to 50	Up to 176	170	85	85
22	60 – 80	176	217	132	85
up to 30	100	448.8	26	3	23
Total			**413**	**220**	**143**

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. More recently, most of our new drilling units have been manufactured in China. Approximately 56% of our drilling rigs have triplex pumps, all of our rigs have Western manufactured solids control equipment and approximately 34% have top drive systems.

Capital Investment Program

Our long-term strategic relationships with our customers allow us to implement a long-term capital investment program. Our capital investment strategy involves the on-going purchase of heavier and higher specification drilling rigs to position us ahead of our competitors. This allows us to drill more quickly and also to drill deeper and more complicated wells.

During the year ended December 31, 2012, we contracted for the acquisition of 11 new drilling rigs at a total cost of approximately US$165 million. We also continually invest in our rig fleet upgrade and modernization plan which includes investments to extend the life of our older drilling rigs. We intend to upgrade up to 14 rigs during 2013 at a total cost of approximately US$66 million.

Contracting

A significant part of our onshore drilling services is provided to LUKOIL pursuant to our onshore drilling services framework agreement. We entered into our first onshore drilling services framework agreement with LUKOIL in 2005 for a five-year term and the second in 2010 for a three-year term. In December 2012, we entered into our third onshore drilling services framework agreement with LUKOIL for another three-year term commencing in January 2013. This agreement includes a guaranteed scope of drilling and well construction services to be provided to LUKOIL, including the commitment to drill at least 7,550 thousand meters during the three-year period.

Pursuant to the onshore drilling services framework agreement with LUKOIL, EDC enters into annual contracts with companies in the LUKOIL group that 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. Depending on the complexity of the drilling, our services are provided either on a general contractor “turn-key” basis or on a day rate basis. Completion services, which are a part of the well construction service that we provide, pursuant to the new framework agreement, are contracted separately, given the increased complexity of such services.

With respect to our other customers, we also generally contract to provide our onshore drilling services either on a general (turn-key) contractor basis or on a day rate basis. Under the terms of these contracts, we are provided with a well construction project plan that sets forth our obligations in connection with the drilling operations and certain specified milestones in the drilling process. Almost all of our contracts, whether on a general contractor or day rate basis, 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.”

Under our general contractor contracts, we assume overall control of the drilling and associated services such as the provision of drill bits, drilling fluids, directional drilling, cementing services and wireline logging. We subcontract directly with providers of associated services. Our subcontractors are typically subject to approval by our customers. Turn-key based contracts are typically used for drilling more conventional production wells in known areas, while comprehensive well construction drilling contracts are better suited for the unique logistical conditions in Russia. Under general contractor turn-key contracts, our customers reimburse to us the cost of services of certain subcontractors. The types of reimbursable services may change depending on the customer and project requirements. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Cost of Services, Excluding Depreciation and Taxes.” Day rate contracts typically provide for payment of a fixed daily rate for our services on the basis of a twenty-four hour drilling cycle. As day rate contracts are typically used for exploration and higher risk production drilling, which involves greater risks and uncertainties, such contracts typically provide for the possibility to adjust our fees if delays in drilling operations occur due to unexpected drilling events or if unanticipated geological conditions are encountered in the process of drilling.

In 2010, we entered into a five-year workover services framework agreement with LUKOIL. This framework agreement includes a guaranteed volume of workover services to be provided during the five-year term.

Most of our non-LUKOIL business is obtained through open tenders. 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

In the year ended December 31, 2012, we accounted for the majority of LUKOIL's drilling volumes. According to REnergyCo, we also accounted for 35% of Rosneft's drilling volumes, 24% of Gazprom Neft's drilling volumes and 6% of TNK-BP's drilling volumes. In addition, based on our estimates, in the year ended December 31, 2012, our overall drilling volumes for LUKOIL increased by approximately 30% and our overall drilling volumes for Rosneft increased by approximately 60%, compared to the year ended December 31, 2011.

Business development for our onshore drilling services division is conducted by a group of managers consisting of executives and senior managers of BKE and SGC-Drilling in Moscow and in each of their respective branch offices. Although a significant portion of our business is derived from our relationship with LUKOIL, we have a strategic focus on expanding our business to non-LUKOIL customers. The total meters drilled for non-LUKOIL customers increased to 2,593 thousand meters in 2012 from 1,762 thousand meters in 2010. As part of our business development strategy, we continue to pursue opportunities to enter into long-term contracts with our customers for a term of two to three years.

Based on our available rig capacity, our largest operating subsidiary in Russia, BKE, participated in 24 tenders for drilling volumes for 2013. As a result of the tenders, we won ten contracts for the provision of production and exploration drilling services by BKE.

In the year ended December 31, 2012, LUKOIL was our largest customer accounting for 65% of our revenue in the onshore drilling division. See "Risk Factors — Risks Related to Our Business — We rely on two key customers, LUKOIL and Rosneft, for the majority of our revenues."

Suppliers

As part of our transaction with Schlumberger in 2011, we transferred OOO New Technology Services (our drilling fluids and cementing services) and OOO TechGeoServices (our directional drilling and measurement while drilling services) to Schlumberger. We subsequently entered into a five-year master services agreement with Schlumberger whereby Schlumberger will become our preferred supplier for certain types of well services. Under this master services agreement, we committed to obtain 85% of services such as drilling fluids, directional drilling and cementing services from Schlumberger in cases where BKE and SGC-Drilling provide general contractor services to LUKOIL and Rosneft, provided that the customer approves. Prices for these services were agreed with Schlumberger under the master services agreement with the proviso that any differences arising from price indexation agreed between us and LUKOIL or Rosneft would be passed on to Schlumberger on an annual basis.

Most of the drilling rigs that we use in providing our onshore drilling services were manufactured in Russia by either ZAO "Uralmash Burovoye Oborudovanie" or OOO "Volgogradsky Zavod Burovoy Techniki." 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, Le Tourneau Ellis Williams Company, Inc., LEWCO, NOV and Chinese manufacturer ZAO "Izhdrill Hun-Hua." Prices of foreign drilling rigs are directly dependent on relevant customs duties and import VAT. In particular, customs duties on onshore drilling rigs have recently increased from nil to 5% of their customs value but not less than EUR2.5 per kilo. However, this has not had a significant effect on our results of operations.

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, mud tanks, racks and cranes and associated support equipment such as rig camps, 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 geotechnical services, equipment and personnel transportation services, well pad preparatory services, drill bits and turbine drilling motors, amongst other auxiliary services and materials.

Operations and Customers by Region

The majority of our onshore drilling and workover operations are conducted in the Western Siberia, Volga-Urals, Eastern Siberia and Timan-Pechora 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 such as northern Russia can only be transported during winter when the ground is sufficiently frozen to create access roads capable of handling heavy trucks and rig moving equipment. 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 remobilize a rig prior to the spring thaw may result in the rig being forced to remain idle and in place on a well site until the following winter. This is one of the greatest operational challenges of operating in northern Russia. Nevertheless, we continue to focus on improving our logistics planning and managing our rig schedules and movement 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 years ended December 31, 2012, 2011 and 2010.

	Number of Meters Drilled (in thousand meters)		
	Year ended December 31,		
	2012	2011	2010
Region			
Western & Eastern Siberia	5,341	4,185	3,584
Volga-Urals	436	309	262
Timan-Pechora	265	257	232
Other Regions	9	26	25
Total	**6,051**	**4,777**	**4,103**

	Number of Wells Drilled		
	Year ended December 31,		
	2012	2011	2010
Region			
Western & Eastern Siberia	1,743	1,346	1,198
Volga-Urals	215	147	136
Timan-Pechora	94	85	82
Other Regions	4	8	7
Total	**2,056**	**1,586**	**1,423**

	Number of Workovers Performed		
	Year ended December 31,		
	2012	2011	2010
Region			
Western & Eastern Siberia	10,970	10,002	10,176
Volga-Urals	976	524	416
Timan-Pechora	787	842	309
Total	**12,733**	**11,368**	**10,901**

Western and Eastern Siberia

We provide onshore drilling services in Western Siberia through the Western Siberia branch and through the Nefteyuganskiy and Strizhevoy branches of SGC-Drilling. We also provide workover services through KRSE and SKRS, and on smaller scale, through BKE. The Kogalym branch of SGC-Drilling provides sidetracking services in the region. In Western Siberia, we maintain operating bases in Kogalym, Tyumen and Tomsk. As of December 31, 2012, the Western Siberia branch operated 145 drilling and sidetracking rigs and had 120 drilling and sidetracking crews. Total employee count in Western Siberia including our drilling, workover and sidetracking operations was 14,787 as of December 31, 2012.

The Western Siberia branch operates a broad spectrum of drilling rigs from 80 tonne rigs used for sidetracking to 320 tonne rigs capable of drilling wells of up to 5,000 meters. We rely primarily on Uralmash 3000 rigs that are capable of drilling wells of up to 3,200 meters, which we consider to be the most suitable drilling rigs for cluster drilling in Western Siberia. During the last several years we have been adding new heavy 320 tonne rigs that are capable of drilling wells of up to 5,000 meters in depth. Most of the rigs we operate in Western Siberia are equipped with 4 stage mud cleaning systems and approximately one-third of the rigs have top drives.

The Western Siberia branch of BKE also manages and performs our Eastern Siberian operations. In 2008, we began to provide drilling services on the Vankor field in Eastern Siberia and workover services later in 2011. We maintain an office in Krasnoyarsk. As of December 31, 2012, we operated three drilling rigs capable of drilling wells of up to 5,000 meters in depth. All the rigs operating at Vankor field are less than five years old, equipped with the top drives, four stage mud cleaning systems and VFD triplex mud pumps.

During the year ended December 31, 2012, our primary customers in Western Siberia in terms of revenue were LUKOIL, Rosneft and Gazprom Neft.

Volga-Urals

We provide onshore drilling and workover services in the Volga-Urals region through the Perm and Nizhnevolshsk branches of BKE. The Perm branch also provides sidetracking and workover services. We maintain operating bases in Perm, Polazna, Buzuluk and Zhyrnovsk.

As of December 31, 2012, we operated 63 drilling and sidetracking rigs and had 42 drilling and sidetracking crews with a total of 5,053 employees in the Volga-Urals region.

We operate a broad spectrum of drilling rigs from 100 tonne rigs used for sidetracking to 450 tonne rigs. We rely primarily on BU-2500 EUK rigs that are capable of drilling wells of up to 2,500 meters, which we consider to be the most suitable drilling rigs for cluster drilling in the Volga-Urals region. In 2008 we acquired two 450 tonne rigs capable of drilling wells of up to 6,400 meters in depth.

During the year ended December 31, 2012, our primary customer in the Volga-Urals region in terms of revenue was LUKOIL. We also provided our services to TNK-BP and Gazprom Neft.

Timan-Pechora

We provide drilling and workover services in the Timan-Pechora region through the Usinsk branch of BKE and SK Meridian. We maintain an office and an operating base in Usinsk. As of December 31, 2012, we operated 42 drilling rigs and had 30 drilling crews with a total of 2,347 employees in the Timan-Pechora region.

We primarily operate drilling rigs with lifting capacities of 160 to 400 tonnes. We rely primarily on Uralmash 320 tonne rigs that are capable of drilling wells of up to 5,000 meters and which we consider to be the most suitable drilling rigs for drilling in the Timan-Pechora region.

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.

During the year ended December 31, 2012, our primary drilling services customers in Timan-Pechora in terms of sales was LUKOIL. We also provided our services to Rusvietpetro and Pechoraneft.

Other regions

We commenced drilling operations in Iraq in June 2012 by acquiring three land drilling rigs from an existing drilling contractor and added a fourth rig in Iraq later in 2012. We manage our operations through two offices and a rig yard in Iraq, as well as an administrative office located in Houston. We operate four single well drilling rigs capable of drilling wells of up to 5,000 meters in depth. All four rigs are contracted to international oil and gas companies: Afren, Gulf Keystone, HKN and Marathon Oil.

In 2007 we started providing drilling services in Kazakhstan with two 320 tonne rigs. At the end of 2011, these rigs were relocated to Russia to ensure better utilization rates. We do not currently have any operations in Uzbekistan despite establishing a subsidiary there in August 2006.

Offshore Drilling Services

Overview and History

Our offshore drilling services division provides drilling of oil and gas wells in the Russian, Kazakh and Turkmen sectors of the Caspian Sea. These services are carried out by OOO BKE Shelf ("**BKE Shelf**"). BKE Shelf was formerly registered as LUKOIL Shelf Limited, LUKOIL's in-house offshore drilling contractor in the Caspian Sea operating the *ASTRA* rig, which we acquired from LUKOIL in 2006. This was followed by our acquisition of the *SATURN* offshore jack-up rig from Transocean in February 2011. The acquisition of the *SATURN* rig was a milestone in our plan to become the market leader in the Caspian offshore drilling market and provided us with the capacity to serve approximately two-thirds of the jack-up market in the Russian, Kazakh and Turkmen waters of the Caspian Sea. In addition, we have two further jack-up rigs that are in the process of being constructed by Lamprell, the *NEPTUNE* and the *MERCURY* rigs, at a cost of US$235 million per rig, with delivery scheduled for the third quarter of 2013 and the fourth quarter of 2014, respectively.

In 2012, our *ASTRA* jack-up rig was deployed in the Russian waters of the Caspian Sea drilling for LUKOIL and in the Kazakh waters of the Caspian Sea drilling on the N Block. Four wells were drilled and completed, including three wells in the Russian waters and one well in the Kazakh waters. In 2013, the *ASTRA* jack-up rig will continue to move between the Russian and Kazakh waters of the Caspian Sea, maintaining a high level of utilization with a backlog of wells waiting to be drilled. Our *SATURN* jack-up rig continues to operate for Petronas in the Turkmen sector of the Caspian Sea, drilling and testing multiple exploration and appraisal wells. Historically, the *SATRUN* jack-up rig was contracted on a long-term basis to Petronas. In 2012, we renewed our long-term contract with Petronas for a further period of three years until January 2016. During 2012, the *SATURN* jack-up rig performed four geological sidetracks and drilled one well for Petronas. We continue to provide our drilling services on the LSP-1 platform on LUKOIL's Yuri Korchagin field in the Russian waters of the Caspian Sea under our five-year offshore agreement with LUKOIL. During 2012, six wells were completed including five extended reach horizontal development wells. We expect our new *NEPTUNE* and *MERCURY* rigs to be fully utilized following their delivery.

Equipment and Technologies

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.

The *ASTRA* rig 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. It is a Baker Marine Corp BMC-150-H, 3-leg jack-up platform designed for offshore exploration in the Caspian Sea in water depths of up to 45 meters and well depths of up to 4,570 meters. It is equipped with an NOV TDS-11 top drive drilling system and Cameron and Shaffer blowout preventers. In accordance with relevant Russian environmental regulations, the rig complies with the strict "zero discharge" requirements of the Caspian Sea and is outfitted with fish protection equipment. The rig is Russian Federation flagged and registered in Astrakhan, Russia. The rig is classified ABS A1, IMO MODU 1979.

The *SATURN* rig was built in Singapore and assembled in Baku, Azerbaijan by Keppel FELS in 2000. It is a Keppel FELS CS Mod V, 3-leg jack-up platform designed for offshore exploration in the Caspian Sea in water depths of up to 107 meters and well depths of up to 7,925 meters. It is equipped with a Canrig 1275E top drive drilling system and 15Kpsi Shaffer blowout preventers. The rig complies with the strict "zero discharge" requirements of the Caspian Sea. The rig is Liberian flagged and registered in Monrovia. The rig is classified ABS 1A1, IMO MODU.

The *NEPTUNE* rig and the *MERCURY* rig are both being built in the United Arab Emirates and assembled in Astrakhan, Russia by Lamprell. They are due for completion in the third quarter of 2013 and the fourth quarter of 2014, respectively. They are both Le Tourneau Super 116E, 3-leg jack-up platform designed for offshore exploration in the Caspian Sea in water depths of up to 107 meters and well depths of up to 9,150 meters. They are equipped with an NOV TDS-8SA top drive drilling system and 15Kpsi Shaffer blowout preventers. Both rigs comply with the strict "zero discharge" requirements of the Caspian Sea. Both rigs are Liberian flagged and registered in Monrovia. Both rigs are classified ABS 1A1, IMO MODU.

Capital Investment Program

For the year ended December 31, 2012, the capital expenditure for the *NEPTUNE* rig and the *MERCURY* rig was US$90 million and US$48.8 million, respectively. In 2012, we spent approximately US$11 million on the ordinary repair and maintenance of the *ASTRA* rig and the *SATURN* rig. We expect to spend similar amounts for such repair and maintenance of these jack-up rigs every five years thereafter. Based on the rig construction schedule, we expect to make a payment of US$17 million for the *NEPTUNE* rig and a two stage payment in the amount of US$90.8 million for the *MERCURY* rig in the year ending December 31, 2013.

Contracting

Our contracts to provide offshore drilling services are either competitively tendered or individually negotiated and vary with respect to terms and provisions. We contract directly with customers such as LUKOIL and the Caspian Oil Company in Russia, Petronas and Dragon Oil in Turkmenistan, and KazMunaiGas, CMOC and the N Operating Company in Kazakhstan. All our current drilling contracts provide for payment on a day rate basis and are based on our standard terms and conditions. We regularly receive bonus payments for safe and efficient operations.

A day rate 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 customer 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 customer exercising options for the drilling of additional wells or for an additional term. Our contracts also typically include a provision that allows the customer to extend the contract to finish drilling a well-in-progress. In reaction to depressed market conditions, our customers may seek renegotiation of drilling contracts to reduce their obligations or may seek to suspend or terminate their contracts. Suspension of drilling contracts results in the reduction in or loss of day rate 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, our results of operations would be adversely affected.

The *ASTRA* rig is currently drilling a second exploration well for LUKOIL in the Russian sector of the Caspian Sea under a multi-year contract with LUKOIL before being moved to the Kazakh sector of the Caspian Sea to drill two wells for the N Operating Company. The *SATURN* rig has just started a three-year contract for Petronas in the Turkmen sector of the Caspian Sea. We are in the process of negotiating multi-year contracts for our new *NEPTUNE* and *MERCURY* rigs.

Customers and Marketing

We have long standing relationships with all our current customers in the jack-up rig segment of the Caspian Sea market, with the majority of exploration and appraisal wells drilled in water depths of between 5 to 107 meters in the Caspian Sea being drilled by either our *ASTRA* or *SATURN* rigs, which represent two of the three jack-up rigs currently operating in the Russian, Kazakh and Turkmen sectors of the Caspian Sea. There is currently an acute rig shortage in the Caspian Sea and a backlog of wells waiting to be drilled. Our *ASTRA* and *SATURN* rigs are currently fully utilized with our existing customers. We intend to build on the strong relationships we have with our existing customers and meet their increasing demands with our new high specification *NEPTUNE* and *MERCURY* jack-up rigs, which represent two of the three new jack-up rigs that are currently being constructed for the Caspian Sea market.

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 from, a variety of international and local suppliers, including Schlumberger, NOV, Cameron, Baker Oil Tools, Weatherford, LUKOIL-Kaliningradmorneft, Caspnefteflot, LUKOIL-Avia and SCAT Airlines. In Russia, 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.

Competition

There are currently three jack-up rigs operating in the Russian, Kazakh and Turkmen sectors of the Caspian Sea. We operate the *ASTRA* and the *SATURN* rigs, while the third, the *IRAN KHAZAR*, which was built in 1995, is owned and operated by the National Iranian Drilling Company and drills only for Dragon Oil under a long-term contract. There are also several old, Soviet-era jack-up rigs in Azerbaijan that are inactive. The *CASPIAN DRILLER*, a new F&G Super M2, is being completed in Astrakhan by the Chinese shipbuilder CIMC-Raffles, and is expected to commence drilling for Dragon Oil only in Turkmenistan later this year under a long-term contract. Apart from our new *NEPTUNE* and *MERCURY* rigs, we are unaware of any other jack-up rigs that are likely to enter the Caspian Sea market before 2015. We believe that the specifications of the *NEPTUNE* and *MERCURY* rigs are superior to other competing jack-up rigs currently available or expected to become available in the market in the near future.

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 and obligatory civil liability insurance for owners operating hazardous facilities. We also maintain the following voluntary policies: medical insurance, accident and occupational diseases insurance, motor insurance, comprehensive property insurance, civil liability insurance and supplementary non-state pension fund employee insurance. Our policies are underwritten by major Russian and international insurance companies and syndicates, such as Kapital-Strakhovanie, Insurance Company of Gas Industry, AlfaStrakhovanie and Lloyd's Re-Insurance Syndicate. On December 29, 2012 we entered into a contract for a comprehensive insurance program with Kapital-Strakhovanie. Pursuant to that agreement, we insured risks associated with the drilling, completion, servicing and workover of wells, general production from wells, insurance for our drilling rigs, equipment and general property and for potential civil liability for pollution of the environment as a result of well control loss. The total compensation limit under that policy is US$100 million. 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 and OOO BKE Shelf as bareboat charterer are insured by Kapital-Strakhovanie and reinsured by Waltkins Syndicate (Lloyd's Re-Insurance Syndicate) and W.R.Berkley Insurance (Europe) Ltd, for the loss of the *ASTRA* rig under a hull and machinery policy entered into on February 20, 2013 for a period of one year. The policy has a limit of US$101.6 million for hull and machinery, including leased, over-side and down-hole equipment. AstraOrient Limited as owner and OOO BKE Shelf as bareboat charterer also hold protection and indemnity insurance with Assuranceforeningen Skuld (Gjensidig) Skuld, Mutual Protection and Indemnity Association (Bermuda) Ltd, which was entered into on February 20, 2013 for a period of one year. The policy has a separate limit of US$100 million per accident.

Caspian Sea Ventures International Limited as owner and OOO BKE Shelf as bareboat charterer (with Cypress Oilfield Holdings Limited, Eurasia Drilling Company Limited and Petronas as co-insured) are insured by The State Insurance Organization of Turkmenistan "Turkmengosstrakh" and reinsured by Lloyd's Re-Insurance Syndicate for the loss of the *SATURN* rig under a hull and machinery policy entered into on May 1, 2012, for a period of one year. The policy has a limit of US$260 million for hull and machinery, including leased, over-side and down-hole equipment. Caspian Sea Ventures International Limited as owner and OOO BKE Shelf as bareboat charterer (with Cypress Oilfield Holdings Limited, Eurasia Drilling Company Limited and Petronas as co-insured) also hold protection and indemnity insurance with Assuranceforeningen Skuld (Gjensidig) Skuld, Mutual Protection and Indemnity Association (Bermuda) Ltd, which was entered into on February 20, 2013, for a period of one year. The policy has a separate limit of US$150 million per accident.

We expect the insurance policies for our new *NEPTUNE* and *MERCURY* rigs to be similar.

Health, Safety and Environment

Substantially all of our operations are subject to hazards that are customary for oil and gas drilling operations, including spills, blowouts, reservoir damage, loss of well control, cratering, oil and gas well fires and explosions, natural disasters, pollution and mechanical failure. Our offshore operations are also 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 Russian authorities for compliance with work safety requirements under Russian law.

In 2005, BKE received compliance certificates for ISO 14001:2004 (Environmental Protection Management System) and OHSAS 18001:2007 (Health and Safety Management System). In 2011, a supervisory audit was carried out by Bureau Veritas Certification, an independent certification body, and BKE was recertified as being compliant with the requirements of the above-mentioned standards. In 2012, our Niznevolzhsk, Western Siberia, Usinsk and Moscow offices were audited by Bureau Veritas Group and were likewise found to be in compliance with the applicable safety standards. In 2007, BKE Shelf was audited and recognized as complying with the Quality Standard ISO 9001:2000 and IQNET (Russian Register Certification System). In 2010, BKE Shelf upgraded to the revised Quality Standard ISO 9001:2008. Furthermore, our lost time incident rate ("**LTI**") has consistently been lower than the global rate, according to the International Association of Drilling Contractors. In June 2012, our *SATURN* jack-up rig achieved a major milestone of operating continuously for five years without any LTI. Both of our *ASTRA* and *SATURN* jack-up rigs also comply with the strict "zero discharge" requirements of the Caspian Sea.

We believe we are in compliance in all material respects with all safety laws and regulations applicable to our business. For the years ended December 31, 2012, 2011 and 2010, our LTI rate was 0.22, 0.26 and 0.19, respectively, compared to the industry LTI rate of 0.26 (for the third quarter of 2012), 0.36 and 0.39, respectively, according to the International Association of Drilling Contractors. We are committed to improving our health and safety measures on a continuous basis. Although we believe we have sufficient safety measures in place, including a system for identifying causes of accidents, the nature of our business is, however, such that accidents may occur. A number of our rigs are old, which may increase the risk that such accidents may incur. See "Risk Factors — Risks Related to Our Business — Our onshore drilling rig fleet requires substantial capital expenditures in order to periodically modernize and renovate it. In addition, we may be unable to procure sufficient numbers of new drilling rigs to pursue our growth strategy or maintain our business at its current level."

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 approximately 200 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 15 employees who are charged with similar responsibilities. The principal sources 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 environmental and health and safety laws and regulations could increase our costs or restrict our operations."

Property

We own approximately 561 facilities and lease 194 further facilities, including mechanical repair shops for drilling equipment, administrative buildings, premises, warehouses and chemicals storage facilities. We own approximately 19 and lease approximately 65 land plots on which our facilities are located.

Employees

The table below sets out the number of people (full-time equivalents) employed by us as of December 31, 2012, 2011 and 2010:

	Year ended December 31,		
	2012	2011	2010
Total employees	23,523	20,877	18,987
of which workers	20,241	15,092	13,807
of which engineers, management and other staff	2,864	5,386	4,895
of which offshore employees	418	399	285

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 90% of employees in our onshore drilling services division are members of the Oil & Gas Industry Workers Trade Union. We have no trade unions 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.

In March 2008, the Company introduced an incentive plan for certain members of our management for a five year period beginning January 1, 2008. Compensation under the plan is based on a multiple of the participants' annual salary and is adjusted for (a) a percentage determined by the increase in the quoted price of the Company's stock from a pre-determined starting price to the closing price of the stock in the particular year ("**Factor**"), and (b) the year of compensation under the plan. The Factor ranges from 0% (where the increase in the stock price is less than 5%) to 100% (where the increase in the stock price is greater than 20%) for any given year during the five year period. The percentages applied to each of the years under the plan are equal to 12% for 2008, 15% for 2009, 18% for 2010, 25% for 2011 and 30% for 2012. The starting price for the 2008 year was USD 27.09 and has been determined with reference to the quoted market price of the Company's global depositary receipts on the London Stock Exchange. The starting price is determined at the beginning of each year based on an average quoted stock price for the last 20 trading days of the preceding year. The rights to compensation under this plan vest yearly, immediately after the final trading day of the compensation year if the participants are still employed or otherwise in good standing with the Company.

On February 1, 2011 the Company announced that in accordance with its incentive compensation plan participants of the plan were awarded 522,060 global depositary receipts for their performance in 2010. Based on the stock price as of December 31, 2011, no incentive plan award was due for 2011. On February 1, 2013, the Company announced that in accordance with its incentive compensation plan participants of the plan were awarded 875,260 global depositary receipts for their performance in 2012. One global depositary receipt represents one ordinary share in the Company.

Our new incentive plan for top managers (approximately 20 people), which went into effect January 1, 2013, contains a bonus computed upon a multiple of the managers base pay and yearly cash bonus earned upon the achievement of certain EPS goals and which vests over three years. The award is paid each year in either cash or stock, at the election of our Board of Directors.

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

Litigation

Cypress Oilfield Holdings Limited ("**COHL**"), a wholly-owned subsidiary of EDC, is currently in arbitration proceedings with a rig manufacturer before the Arbitration Institute of the Stockholm Chamber of Commerce in respect of a dispute over five drilling rigs which COHL contracted to buy from the rig manufacturer and which the rig manufacturer failed to deliver. The rig manufacturer is claiming the price of the five drilling rigs which COHL contracted to buy, plus damages in the aggregate total amount of about US$62 million and COHL has counterclaimed for US$48 million in damages. We do not believe that the outcome of this arbitration proceeding will have a significant impact on our financial position, results from operations or cash flows. We have made adequate financial provisions accordingly.

REGULATORY MATTERS

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

Overview

Russia has a tiered structure of federal authorities that divides responsibility between various governmental bodies. The federal ministries set forth regulations that build upon the legislation in their respective areas of responsibility and establish a corresponding regulatory regime. Various federal services and federal agencies monitor compliance with applicable law and regulations promulgated by the federal ministries.

At the federal level, general regulatory oversight of the Group's business is divided between the following Russian ministries:

- the Ministry of Industry and Trade, which is responsible for the development of governmental policy in the industry and trade sectors and the creation of both general and industry-specific standards;
- the Ministry of Energy, which is responsible for the development and implementation of governmental policy in the fuel and energy sector (including power and petroleum industries) and manages state property in the fuel and energy sector;
- the Ministry of Natural Resources and Ecology, which is responsible for the development of governmental policy pertaining to, and the regulation of, the exploration, use, restoration and protection of natural resources, and environmental matters;
- the Ministry of Civil Defence, Emergencies and Elimination of Consequences of Natural Disasters, which is responsible for the development and implementation of governmental policy in the fields of civil defence, prevention and resolution of emergency situations and fire safety;
- the Ministry of Economic Development, which is responsible for the development of governmental policy pertaining to, and the regulation of, economic and entrepreneurial activity, and analysis and forecasting of economic, social and business development; and
- the Ministry of Finance, which determines taxation policy.
- There are also various federal services and federal agencies that regulate our business, in particular:
- the Federal Service for Environmental, Technological and Nuclear Supervision (the "**Rostekhnadzor**"), which oversees compliance with certain mandatory industrial safety rules and environmental legislation, including safety procedures relating to the installation, deployment and operation of equipment used in our business and the procedures for maintaining technological processes. This regulatory body also issues licences and authorizations for certain industrial activities and registers hazardous facilities;
- the Federal Service for the Supervision of the Use of Natural Resources, which supervises compliance with the terms and conditions of subsoil licences issued by the Ministry of Natural Resources and Ecology and certain matters of environmental legislation, regulates geological exploration and the use and protection of subsoil, issues licenses for the handling of hazardous waste, and imposes limits on, and establishes the rules governing, waste disposal;
- the Federal Labour and Employment Service, which monitors and supervises compliance with labour legislation;
- the Federal Agency for Water Resources, which monitors compliance with obligatory state requirements in the area of water resources protection;
- the Federal Agency for Technical Regulation and Metrology, which determines and enforces compliance with obligatory state standards and technical regulations; and
- the Federal Antimonopoly Service (the "**FAS**"), which supervises compliance with anti-monopoly legislation and the state policy for promotion and development of the free market and competition by seeking to prevent and terminate monopolistic activities, unfair competition and other violations of antimonopoly legislation. The FAS also performs antitrust clearance of mergers and acquisitions and oversees the activities of companies holding dominant market positions.

The federal bodies listed above are directly involved in the regulation and supervision of our business. In addition, there are a number of other government organizations which (together with their relevant subdivisions) have authority over various general issues relevant to Russian oilfield services or are otherwise involved in regulation of other areas of law that affect our business.

Generally, regional and local authorities with jurisdiction over a specific region have substantial power and influence, including authority over land-use allocations.

Licensing

The provision of oilfield services in the Russian Federation is subject to receipt by us of numerous licences from a number of Russian authorities. The Federal Law No. 99-FZ "On Licensing of Certain Types of Activities", dated May 4, 2011, as amended (the "**Licensing Law**"), as well as other laws and regulations, set forth the activities subject to licensing and establish procedures for issuing licenses. Such activities include, for example, the exploitation of chemically hazardous industrial objects, exploitation of explosive and flammable hazardous industrial objects, handling of hazardous waste, fire fighting, and assembly, repair and maintenance of fire safety systems. The licenses are usually issued for an indefinite term.

As a general rule, a licence may be suspended by the licensing authority if (i) administrative liability has been imposed on a licencee for a failure to cure a material breach of the terms and conditions of the license after receiving a respective warrant; or (ii) a court suspends the activities of a licensee for a material breach of the terms and conditions of the licence. If a licencee fails to cure the breach of the terms and conditions of the licence which resulted in a suspension of its activities within the period established by a repeated warrant or by a court, the licensing authority must apply to the court to have the licence terminated.

Environmental Matters

We are subject to laws, regulations and other legal requirements relating to protection of the environment, including laws and regulations governing the discharge of substances into the air, water and soil, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, flora and fauna protection, and wildlife protection. Environmental protection matters in Russia are regulated primarily by the Federal Law No. 7-FZ "On Environmental Protection" dated January 10, 2002, as amended (the "**Environmental Protection Law**"), as well as by a number of other federal and regional legal acts.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. Certain provisions pertaining thereto are also set out in the Water Code of the Russian Federation dated June 3, 2006, as amended, the Federal Law No. 89-FZ "On Production and Consumption Waste" dated June 24, 1998, as amended, and Federal Law No. 96-FZ "On Atmospheric Air Protection" dated May 4, 1999, as amended. The Ministry of Natural Resources, Rostekhnadzor, the Federal Agency for Water Resources and other government agencies establish guidelines for setting limits for different types of permissible impact on the environment, including the emission, disposal of substances and waste disposal. A company may obtain an approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan for reduction of emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. The fees for pollution are calculated pursuant to the Environmental Protection Law and Regulation of the Russian Government No. 632 "On the Approval of the Determination of Fees and Capped Fees for Environmental Pollution, Disposal of Wastes or Other Types of Harmful Environmental Impact" dated August 28, 1992, as amended, and other laws and regulations.

Fees are calculated in accordance with base standards and ratios taking into account environmental factors as approved by Resolution of the Russian Government No. 344, dated June 12, 2003, as amended, and other laws and regulations periodically adopted in furtherance of its provisions. Fees 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 statutory limits, intermediate fees are imposed for pollution within individually approved limits, and the highest fees are imposed for pollution exceeding such limits. The payment of such fees does not relieve a company from the obligation to take environmental protection measures and undertake restoration and clean-up activities.

Environmental impact assessment and environmental approval

A company intending to conduct activities that may affect the environment must perform an environmental impact assessment of those activities and prepare project documentation in accordance with the Environmental Protection Law, the Federal Law 174-FZ "On Expert Environmental Review" dated November 23, 1995, as amended, the Regulation on the Assessment of the Impact of Planned Business and Other Activities on the Environment in the Russian Federation approved by Order No. 372 of the State Committee of the Russian Federation on Environmental Protection dated May 16, 2000, and other ancillary regulations. State authorities are also required to conduct environmental assessments of such activities. However, under the Environmental Protection Law, a state environmental assessment will not obviate a party's obligation to compensate the state for damage caused to the environment.

Environmental liability

If the operations of a company breach environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban such operations and require the company to remedy the effects of the breach. The statute of limitations for such lawsuits is 20 years. Any company or individual that fails to comply with environmental legislation requirements may be subject to administrative and/or civil liability, and individuals (including managers of legal entities) may be held criminally liable. Courts may also impose clean-up obligations in lieu of or in addition to imposing fines. A court may impose an obligation to finance and conduct reclamation measures pursuant to an expert report approved by a court.

Health and Safety

Due to the nature of our business, most of our business activity is conducted at industrial sites by a large number of workers, and workplace safety issues are of significant importance to the operation of these sites. The principal law regulating industrial safety is the Federal Law No. 116-FZ "On Industrial Safety of Hazardous Industrial Facilities" dated July 21, 1997, as amended (the "**Industrial Safety Law**"). The Industrial Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines and high pressure devices are used. The Industrial Safety Law contains a comprehensive list of dangerous substances and their permitted concentrations, and extends to facilities and sites where these substances are used, produced, stored or transported. All such facilities and sites need to be registered with a dedicated register of hazardous industrial facilities maintained by Rostekhnadzor before they are put into operation. Regulations adopted pursuant to the Industrial Safety Law further address safety rules for production operations that we conduct. Our oilfield services are also subject to the Regulation of the Federal Mining and Industrial Oversight Service (a predecessor of Rostekhnadzor) No. 56 "On Approving the Safety Rules in the Oil and Gas Industry" dated June 5, 2003 (the "**Industry Safety Rules**").

On March 4, 2013, significant amendments to the Industrial Safety Law (the "**Industrial Safety Law Amendments**") were adopted. Under the Industrial Safety Law Amendments, all hazardous industrial facilities will be divided into four classes based on the degree of danger that they pose: (i) exceptionally dangerous; (ii) highly dangerous; (iii) dangerous; and (iv) mildly dangerous. Each facility will be assigned a hazard class at the time of its registration with the register of hazardous industrial facilities. The Industrial Safety Law Amendments introduce a detailed classification and quantification of the types and concentrations of dangerous substances based on which hazard classes are assigned. The amendments will enter into force gradually over the period from March 15, 2013 to January 1, 2014. All existing hazardous facilities are required to be re-registered by January 1, 2014 in accordance with the new rules.

Maintenance of industrial safety

Companies that operate industrial facilities and sites of the type specified in the Industrial Safety Law have a wide range of obligations under the Industrial Safety Law and certain other laws and regulations. In particular, they must limit access to such sites to qualified specialists, abide by industrial safety controls and maintain third party liability insurance for injuries caused in the course of operating industrial sites. The Industrial Safety Law also requires these companies to enter into contracts with professional wrecking companies or, in certain circumstances, to create their own wrecking services, conduct personnel training programs, develop and maintain systems to deal with accidents and inform Rostekhnadzor of any industrial accidents.

Industrial safety review

Conservation and liquidation of hazardous industrial facilities, as well as certain construction and refurbishment works pertaining thereto, are subject to an industrial safety review by licensed experts. Any deviation from the relevant project documentation during the process of construction, reconstruction or liquidation of industrial sites is prohibited unless it has been reviewed by a licensed expert.

Declarations of industrial safety

In certain cases, companies operating hazardous industrial facilities must also prepare a declaration of industrial safety which summarizes the risks associated with the operation of a particular facility and the measures that the company is implementing in order to mitigate such risks and ensure compliance with applicable industrial safety requirements. Such declaration must be approved by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. Depending on the type of facility, an industrial safety declaration, as well as an industrial safety review, may be required before a licence permitting the operation of a hazardous industrial facility will be issued.

State control over industrial safety

Rostekhnadzor has broad authority in the area of industrial safety. Industrial accidents may be investigated by a special commission led by a representative of Rostekhnadzor. A company operating a hazardous industrial facility where an accident occurred bears the full cost of such investigation. Officials of Rostekhnadzor have the right to access industrial sites and may inspect documents to verify the company's compliance with safety rules. Rostekhnadzor may suspend or terminate operations or impose administrative liability. Currently, all hazardous industrial facilities are subject to annual inspections by Rostekhnadzor. Starting from January 1, 2014, only facilities of hazard classes I and II will be subject to annual inspections, while class III facilities will only be subject to triennial inspections and class IV facilities will not be subject to scheduled inspections at all. All types of hazardous industrial facilities may also be subject to unscheduled inspections in extraordinary circumstances.

Liability

Any company or individual that violates 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 has an adverse impact on the health of an individual may also be required to compensate such individual for lost earnings and health-related damages.

In addition, Federal Law No. 225-FZ "On Obligatory Civil Liability Insurance of Owners of Hazardous Facilities Against Damage Caused by Accidents at Hazardous Facilities" dated July 27, 2010, determines the list of hazardous facility owners which are obliged to insure their civil liability and establishes that insurance amounts may be up to RUB 6.5 billion depending on the type of hazardous facility and the possible number of affected persons. It also determines insurance premiums payable to the affected persons and stipulates that the difference between an insurance premium and actual damage should be reimbursed by the owner of the hazardous facility.

Useful life of our drilling rigs

Pursuant to the Industrial Safety Law, the Regulation of Rostekhnadzor No. 195 "On Approval of the Procedure for Extending the Useful Life of Technical Devices, Equipment and Constructions at Hazardous Industrial Facilities", dated June 30, 2009 (the "**Regulations on Useful Life Extension**"), and the Industry Safety Rules, drilling rigs cannot be legally operated after the expiration of their safe use life (as set out in the relevant technical regulations, design documentation, operation manuals, standards and safety rules) unless an extension is obtained. To obtain such extension, an industrial safety audit of the rigs needs to be performed by a licensed expert, and the favorable opinion of such expert, which can be conditioned on our repairing or upgrading the relevant rig, needs to be obtained and registered with Rostekhnadzor. The initial safe use life of our rigs is typically ten years, while the extensions are typically granted for a term of three years. A total of five extensions may be granted, making the total service life of a rig normally equal to twenty five years.

Technical Regulation

Federal Law No. 184-FZ "On Technical Regulation" dated December 27, 2002, as amended, introduced rules relating to the development, enactment, application and enforcement of mandatory requirements in relation to certain products and the development of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilization of certain products. Technical regulations set forth mandatory requirements for different products and processes. In addition, detailed characteristics of different products and processes are established according to national standards and standards of organizations which may be applied on a voluntary basis. Compliance with the requirements of technical regulations, standards and terms of contracts is evidenced by either mandatory or voluntary certification. Mandatory certification is effected through either the issuance of a compliance certificate or by certification by the relevant authority by means of a compliance declaration, depending on the type of the product.

On November 18, 2010, in furtherance of the goals of the Customs Union between the Russian Federation, the Belarus Republic and the Kazakhstan Republic, the three countries entered into the Treaty on Joint Principles and Technical Regulation Rules in the Russian Federation, the Belarus Republic and the Kazakhstan Republic. Pursuant to this treaty, the Commission of the Customs Union received the right to adopt unified technical regulations for all of the three members of the Customs Union. On the basis of this provision, the Technical Regulation of the Customs Union on Safety of Machines and Equipment was approved by a Resolution of the Commission of the Customs Union No. 823 dated October 18, 2011, as amended. It sets out the standards applicable to, among other things, various types of drilling equipment, providing that drilling equipment is subject to mandatory certification in the form of declaration of compliance.

Utilization of uncertified equipment is prohibited under Russian law and such utilization, if discovered, may result in an administrative fine and/or forfeiture of such uncertified equipment.

By contrast, voluntary certification is carried out at the request of a particular company and is done in order to confirm the compliance of products and processes with the requirements of different standards and terms of contracts. Voluntary certification is carried out by an accredited entity or individual entrepreneur through the issuance a compliance certificate and the grant of the right to use a compliance mark to the applicant.

Employment and Labour

Employment

Labour matters in Russia are primarily governed by the Labour Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws. For certain territories with harsh climatic conditions, Russian legislation establishes additional regulations to protect the interest of employees. Under Law of the Russian Federation No. 4520-1 “On the State Guarantees and Compensation for Persons Working and Residing in the Far North Regions and Areas of Equal Status”, dated February 19, 1993, such employees are entitled to certain additional benefits including higher salaries and bonuses and additional vacation days.

Termination of employment

An employer may terminate an employment contract only on the grounds specified in the Labour Code. The list of such grounds is exhaustive. If a trade union is formed at an enterprise, in certain cases the employer is obligated to take into consideration the opinion of the trade union prior to dismissing an employee who is a member of the trade union. Any termination by an employer of an employment contract in violation of the Labour Code may be challenged in court and the employee may be reinstated. If an employee is reinstated through a court decision, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress. Lawsuits resulting in the reinstatement of unlawfully dismissed employees and the payment of damages for wrongful dismissal have become increasingly frequent, and Russian courts tend to support employees’ rights in most cases.

An employee may terminate the employment contract at any time at his initiative by giving an employer at least two weeks prior notice, except for the chief executive officer who must provide at least one month’s notice.

Work time and salary

The standard working week is limited by the Labour Code to 40 hours and for employees working in dangerous or harmful conditions it is reduced to 36 hours. Any time worked beyond standard hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate.

The annual paid vacation leave is 28 calendar days and may be extended for certain categories of employees. Employees who work in harmful and hazardous conditions may be entitled to additional paid vacation leave of up to 36 working days.

Work pensions and retirement are regulated by Federal Law No. 173-FZ "On Work Pensions in the Russian Federation" dated December 17, 2001, as amended. As a general rule, the retirement age in Russia is 60 years for men and 55 years for women. In certain cases the retirement age is below this threshold. For example, the retirement age is 50 years for men who have worked in harmful and hazardous conditions for at least 10 years, and 45 years for women who have worked in such conditions for 7.5 years.

The minimum salary level was specified in Federal Law No. 82-FZ "On the Minimum Monthly Wage" dated June 19, 2000 and has been amended a number of times in recent years. The current monthly minimum salary was set on January 1, 2013 at RUB 5,205. The Labour Code provides that salary should be paid by the employer twice a month. Salary payments are controlled and supervised by the state and failure to pay a salary on time may lead to penalties for the employer and criminal prosecution for its top managers.

Trade unions

Although in the past Russian labour 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. The activities of trade unions are primarily governed in the Russian Federation by Federal Law No. 10-FZ "On Trade Unions, Their Rights and Guarantees of Activities Thereof" dated January 12, 1996, as amended (the "**Trade Union Law**"). The Trade Union Law defines a trade union as a voluntary public union of individuals who share professional and other interests. The primary purpose of a trade union is to represent and protect 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 trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian law requires that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain additional guarantees.

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. A trade union may also petition government authorities and labour inspectors and prosecutors requesting that they investigate whether an employer has violated Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes. 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.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of employees to fulfil their work duties (in full or in part) with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as a basis for termination of 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 constitute adequate grounds for termination of an employment contract.

Antimonopoly Regulation

The anti-monopoly legislation of the Russian Federation is based on Federal Law No. 135-FZ "On the Protection of Competition", dated July 26, 2006, as amended (the "**Competition Law**"), and other federal laws and regulations governing anti-monopoly issues. Anti-monopoly restrictions include prohibitions on the conclusion of anti-competitive agreements, the exercise of anti-competitive coordinated actions, acts resulting in unfair competition, and the abuse of a dominant position. Russian legislation grants the FAS the powers necessary for the performance of its functions and dealing with violations of anti-monopoly legislation.

An entity or a group of entities is deemed to have a dominant position in a particular market if: (a) the entity (or the group of entities) has a market share in a particular market in excess of 50%, unless it is specifically established by the FAS that such entity (or such group of entities) does not have a dominant position; or (b) the entity has a market share in a particular market which is less than 50% but more than 35% and the dominant position of such entity (or such group of entities) is specifically established by the FAS, for which purposes the FAS will take into consideration the volatility of the market share of such entity (or such group of entities), the market shares of its competitors, the barriers to entry in the relevant market or other criteria which characterize such market. In certain specific circumstances, an entity may be deemed to have a dominant position even if its market share is less than 35%.

Several entities are deemed to have collective dominance if each of them meets the following criteria: (i) the aggregate market share of not more than three entities exceeds 50%, or the aggregate market share of not more than five entities exceeds 70% (provided that the market share of each such entity exceeds the market shares of other entities in the same market) and the market share of each entity is not less than 8%; (ii) during at least one year (or if the relevant market has existed for less than one year, such shorter period) the relative sizes of the entities' shares are stable or subject to insignificant changes, and access of new competitors to the relevant market is restricted; and (iii) the goods purchased or sold cannot be replaced with other goods, the increase of prices will not lead to decrease of demand, information about the prices, conditions of selling or purchasing in the relevant market is publicly available.

The Competition Law provides for mandatory pre-approval by the FAS of certain transactions, including acquisitions of voting shares of joint stock companies or participation interests in limited liability companies, acquisitions of the core production assets (with certain exceptions) and/or intangible assets of an entity, obtaining (directly or indirectly) the rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body, mergers and consolidations of entities and formation of an entity if certain thresholds established by the Competition Law are met. In addition, the Competition Law stipulates certain carve-outs from this rule providing for post-transactional notification of the FAS instead of the FAS pre-approval in certain cases.

Intra-group transfers are subject to merger control. They may be exempt from the prior approval requirement and may be subject to post-transactional notification to the FAS under certain circumstances, including that not later than one month prior to closing a list of group members is disclosed to the FAS in accordance with the Competition Law.

The Competition Law expressly provides for its extraterritorial application to transactions that are entered into outside of Russia but lead, or may lead, to the restriction of competition in Russia and which relate to assets located in Russia, to the shares (or participation interests) in Russian companies or rights in relation to such companies, shares in or rights in relation to foreign target companies which had sales to Russia of at least RUB 1 billion for the year preceding the year in which the transaction is consummated.

Under the Competition Law, if an acquirer has acted in violation of the merger control rules and, for example, acquired shares without obtaining the prior approval of the FAS, the transaction may be invalidated by a court order initiated by the FAS, provided that such transaction has led or may lead to the restriction of competition, for example, as a result of strengthening a dominant position in the relevant market.

MANAGEMENT

Board of Directors

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

Name	Age	Position	Expiry of Term
Earl of Clanwilliam	52	Chairman of the Board of Directors	2014
Alexander Yu. Djaparidze	57	Director and Chief Executive Officer	2014
Richard Anderson	59	Director and Chief Financial Officer	2013
Alexander Shokhin	61	Director	2014
Martin E. Hansen	72	Director	2015
Richard Matzke	76	Director	2013
René Huck	65	Director	2013
Maurice Dijols	61	Director	2015
Anatoliy Kozyrev	70	Director	2015

The business address of each of the members of our Board of Directors is No. 53, Mykonos Court, Aristide Charalambous 2, 1077 Nicosia, Cyprus. Richard Matzke and René Huck were appointed to the Board on September 16, 2010. Earl of Clanwilliam, Alexander Yu. Djaparidze and Alexander Shokhin were appointed to the Board on October 25, 2011. Richard Anderson was appointed to the Board on October 25, 2011. Martin E. Hansen, Maurice Dijols and Anatoliy Kozyrev were appointed to the Board on September 28, 2012.

Our Board of Directors is divided into three classes as described immediately below:

Classes	No. of Directors	Term to expire at the Annual General Meeting to be held in
Class-I	3	2015
Class-II	3	2013
Class-III	3	2014

At each annual general meeting of the Shareholders of the Company, one class of directors will be elected for a full term of three years to succeed that class of directors whose terms shall be expiring.

The following persons were elected to the Board of Directors in accordance with the class designated against their names:

Name of Director	Class Designation
Martin E. Hansen	Class-I
Maurice Dijols	Class-I
Anatoliy Kozyrev	Class-I
Richard Matzke	Class-II
René Huck	Class-II
Richard Anderson	Class-II
Earl of Clanwilliam	Class-III
Alexander Yu. Djaparidze	Class-III
Alexander Shokhin	Class-III

Brief biographies of our Directors are set out below.

Earl of Clanwilliam. Earl of Clanwilliam (formerly Lord Gillford) has been the Chairman of the Board of Directors of the Company since October 2007. Until recently, he has also been a member of the board of directors of OJSC Polyus Gold (since March 2006); he now sits on the board of directors of the parent company Polyus Gold International Limited. Earl of Clanwilliam founded and is currently a director of Meade Hall & Associates (formerly Gardant Communications). Since 1997, Earl of Clanwilliam has served as a member of the board of directors of the Benevolent Society of St. Patrick, and since 2005, has served on the Advisory Council of the Ukrainian British City Club, and from 2000 to 2004 was non-executive chairman of Cleveland Bridge UK Ltd. Earl of Clanwilliam is a graduate of Eton College.

Alexander Yu. Djaparidze. Mr. Djaparidze has been the Chief Executive Officer of the Company since August 2007 and was one of the Company's founders in 2002. He has also been the Chairman of BKE since 2005. From

June 1995 to February 2007, Mr. Djaparidze served as President of PetroAlliance. 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 also holds a doctorate degree in Technical Science from the Gubkin Moscow Institute of Oil and Gas and is a member of Eurasia Geophysical Society. Mr. Djaparidze was awarded the Russian Federation Government prize for special achievements in science and technology in 2006.

Richard Anderson. Mr. Anderson has been the Chief Financial Officer of the Company since July 2008 and has been a member of the board of directors since October 2011. Mr. Anderson has 32 years of experience in the oil and gas industry in various finance and management roles. Mr. Anderson was the President and Chief Executive Officer of Prime Natural Resources, Inc. from May 2002 to March 2007. Mr. Anderson also served as a director of Transocean from September 2007 to June 2011 and as a director of Boots & Coots, Inc. from April 1998 to September 2010. He also currently serves as a director of Vanguard Natural Resources Ltd. The boards of directors of Transocean and Boots & Coots, Inc., including Mr. Anderson, are currently the subject of lawsuits filed by the respective shareholders of these companies on matters unrelated to the Group or its operations. Mr. Anderson is a certified public accountant and holds a bachelor of science degree, magna cum laude, in business from the University of Colorado and a masters degree in taxation from the University of Denver.

Alexander Shokhin. Mr. Shokhin has been a member of the board of directors since October 2007. He has been a member of the board of directors of LUKOIL and chairman of LUKOIL's HR & Compensation Committee since January 2005. Mr. Shokhin has been the President of the State University-Higher School of Economics since 1995. He 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 the Moscow State University. He is Doctor of Economic Science and Professor and Member of the Russian Academy of Natural Sciences.

Martin E. Hansen. Mr. Hansen has been a member of the board of directors since 2005. He served as the Chief Financial Officer of the Company from May 2004 to 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.

Richard Matzke. Mr. Matzke has been a member of the board of directors since September 2010. From 2002 to 2010, and from 2011, he served as a member of the Board of Directors of LUKOIL and Chairman of its Strategy and Investment Committee. Mr. Matzke served as Vice Chairman of the Board of Directors of Chevron until his retirement in 2002 after 41 years of service with the company. Mr. Matzke is a member of the US-Russia Business Council, Russian-American Chamber of Commerce and Council on Foreign Relations. Previously, he was a member of the Euro-Atlantic Security Initiative, Chairman of the Board of Directors of the US-Kazakhstan Business Association and served on the Boards of Directors of the American-Iranian Council, the National Committee on US-China Relations, and the Eurasia Foundation. He was also on the Board of Trustees of the Africa-America Institute and the Advisory Board of the Centre for Strategic and International Studies. Mr. Matzke holds a degree in geology from Iowa State University in 1959, received a masters degree in geology from Pennsylvania State University in 1961, and an MBA from St. Mary's College in California in 1977. In 1996, he was awarded an honorary doctorate from the Georgian Technical University in Tbilisi. He received a medal for the "Development of the Russian Oil and Gas Industry" in 2006 and received a national prize as "Director of the Year, 2006" from the Russian Association of Independent Directors.

René Huck. Mr. Huck has been a member of the board of directors since October 2007. He has also been a Director of BWO, a Norwegian FPSO Company, since 2006. In October 2005 Mr. Huck retired from Schlumberger where he held a variety of senior positions over 15 years, most recently as Vice-President QHSE and Industry Affairs. From 1988 to 1990, he served as CEO of the drilling contractor Techfor Cosifor. Prior to that, Mr. Huck worked for 16 years as drilling and operations manager and then President of TOTAL Egypt at TOTAL S.A. Mr. Huck holds a degree in Mechanical Engineering from Ecole Centrale in Nantes, France and a degree in Petroleum Engineering from the French Petroleum Institute, Rueil Malmaison in Paris.

Maurice Dijols. Mr. Dijols has been a member of the board of directors since October 2011. Mr. Dijols was the President of Schlumberger Russia from 2003 to 2011. Mr. Dijols joined Schlumberger in the Middle East in May 1977 and has held a variety of executive positions during his 30-year career with Schlumberger. Mr. Dijols holds a degree from Ecole d'Ingenieur de Marseille and Ecole Superieur d'Electricite.

Anatoliy Kozyrev. Mr. Kozyrev has been a member of the board of directors since September 2012. He served as a member of the Board of Directors BKE and BKE Shelf from 2008 to 2012. From 1998 to 2007, Mr. Kozyrev served as Vice President and Director of the Chief Administration for Corporate Budget and Economy Planning and Investments of LUKOIL. From 1993 to 1998, he served as Deputy Minister of Fuel and Energy of the Russian Federation, and sat on the Board of Directors of LUKOIL. Mr. Kozyrev holds a degree in Engineering and Economics from the Moscow Institute of Engineering and Economy and a degree in International Economic Relations from the USSR Federal Academy of Foreign Trade.

Board Committees

The principal committees of the Board are the Audit and Finance, Remuneration and Nomination, Corporate Governance and Safety Committees. Our Audit and Finance Committee is comprised of five board members, Martin Hansen, Alexander Shokhin, Richard Anderson, Earl Clanwilliam and Anatoliy Kozyrev. Our Remuneration and Nomination Committee is comprised of four board members, Maurice Dijols, René Huck, Earl Clanwilliam and Alexander Djaparidze. Our Corporate Governance Committee is comprised of three board members, Earl Clanwilliam, Richard Matzke and Anatoliy Kozyrev. Our Safety Committee is comprised of three board members, René Huck, Earl Clanwilliam and Maurice Dijols, and two members from management, Murat Sampiev and Murray Vasilev. We will seek to modify the composition of our Audit and Finance Committee and our Remuneration and Nomination Committee over time as further appointments are made to our Board of Directors.

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	57	Chief Executive Officer	2015
Richard Anderson	59	Chief Financial Officer	2016
Murat Sampiev	48	Chief Operating Officer	N/A
Edward Redd	55	Senior Vice President — Offshore Operations	2014
Doug Stinemetz	55	General Counsel and Secretary	N/A

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.

Richard Anderson. Mr. Anderson has served as our Chief Financial Officer since July 2008. For additional information see "— Board of Directors" above.

Murat Sampiev. Mr. Sampiev has served as our Chief Operating Officer since January 2010. Mr. Sampiev has 26 years of experience in the oilfield services sector. From 2009 to 2010, he served as Senior Vice President of the Drilling Services Group at Schlumberger Russia. Before joining Schlumberger, Mr. Sampiev was President and a member of the Board of Directors of PetroAlliance. Mr. Sampiev holds a degree in Comprehensive Mechanization of Field Development from Groznyi Oil Institute.

Edward Redd. Mr. Redd has served as our Senior Vice President — Offshore Operations since February 2011. Mr. Redd has more than 31 years of experience in the offshore oilfield services industry. Prior to joining the Company, Mr. Redd spent 32 years at Transocean Ltd. and served as Director of Macondo Recovery Operations for Transocean, followed by an appointment as Director of Assets, new builds.

Doug Stinemetz. Mr. Stinemetz has served as our General Counsel and Secretary since July 2007, as well as Secretary to the Board of Directors. He served as the Company's primary external counsel from 2003 to 2007. Mr. Stinemetz has 27 years of experience practicing law, primarily in the international oil and oilfield service industry. Mr. Stinemetz holds bachelor and masters degrees from Harvard University and received his law degree from the New York University School of Law.

Interests of Members of the Board of Directors and Management

Mr. Alexander Yu. Djaparidze, our Chief Executive Officer as well as a member of our Board of Directors, and his affiliates together have an interest in 47,347,030 of our shares or 32.24% of our issued share capital. In addition, Mr. Djaparidze intends to acquire shares of the Company owned by Hadar Fund Ltd. (the "**Hadar Fund**"), an investment fund that currently holds an interest in certain of the Company's shares, by way of a redemption in kind of shares held by Mr. Djaparidze in the Hadar Fund. In the event that this transaction proceeds and is completed, Mr. Djaparidze and his affiliates would together have an interest in 48,722,790 of our shares or 33.17% of our issued share capital. See "Principal Shareholders."

Mr. Alexander Shokhin, a member of our Board of Directors, is a member of the board of directors of LUKOIL, a company which is currently our major customer, and which we anticipate will continue to be a major customer in the future. Mr. Shokhin is not a member of the board of directors or senior management of any of our operational subsidiaries, and therefore, has no direct managerial authority with respect to their decisions. In the year ended December 31, 2012, we received revenues in the amount of US$2,055 million from LUKOIL.

In addition, the Company's General Counsel, Mr. Doug Stinemetz, is a partner with The Stinemetz Law Firm. During the year ended December 31, 2012, The Stinemetz Law Firm billed the Company for costs and expenses in the amount of US$2.0 million, including third party costs and services of other lawyers. Mr. Stinemetz is not otherwise paid for his services as the Company's General Counsel.

Except as described in Messrs. Djaparidze's, Shokhin's and Stinemetz's biographies and interests above and in the "Related Party Transactions" section 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 Shareholders."

For the year ended December 31, 2012, the aggregate remuneration paid (comprising salary, discretionary bonuses and other short-term benefits) to our directors and executive officers was US$14,023,778. No amounts in respect of pensions, retirement or similar benefits have been accrued in any of the periods presented in this Prospectus. Our Russian subsidiaries are required by law to make contributions equal to fixed percentages of each employee's salary for his or her pension insurance, medical insurance and other statutory benefits.

RELATED PARTY TRANSACTIONS

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

Shareholder loans

In the period from November 2006 through March 2007, the Company entered into loan agreements with its shareholders to partially fund the investment program of its onshore drilling services division and the purchase of its offshore drilling services business. These loans were refinanced and restated on December 31, 2012. As a result of such refinancing, as of December 31, 2012 the aggregate principal amount of such loans was US$50 million. These loans are denominated in US dollars and bear interest at 5.8% per annum, with a maturity date on or before December 31, 2014.

Interest expense of US$2.9 million was recognized and paid on these loans during each of the years ended December 31, 2012 and 2011 and US$6 million during the year ended December 31, 2010. Management believes the terms of these loans are no more onerous than those that would have been negotiated in an arms-length negotiation.

Legal services

The Company's General Counsel, Mr. Doug Stinemetz, is a partner with The Stinemetz Law Firm (the "**Firm**"). In 2012, 2011 and 2010, the Firm billed the Company for costs and expenses of US$2.0 million, US$2.4 million and US$2.2 million, respectively, for his services and services of other lawyers. All services were billed at a discount to the Firm's normal billing rates, while expenses were billed at their actual cost. In addition, the amounts paid to the Firm include considerable third party expenses and charges for the services of other lawyers. Mr. Stinemetz is not otherwise paid for his services as the Company's General Counsel. Management believes the amounts paid for these legal services are no greater than those that would have been negotiated in an arms-length negotiation for a similar level of service and expertise.

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding the interests of persons holding an interest in 5% or more of our issued share capital as of the date hereof. Certain of these shares are held in the form of global depositary receipts. None of the shares represented below have voting rights which differ in any form from those of our shares held by our other shareholders.

Shareholder Name and Principal Address	Beneficial Ownership Number	Beneficial Ownership Percentage
Burned Sun Limited[1] c/o Zoran Ratkovic Pamelva Court, Office 407, 4th Floor Corner of G. Digheny, Kaningos and A. Shoukri Streets CY-3035 LIMASSOL Cyprus	32,883,546	22.39
Cloudburst Orange Limited[2] Stenham Trustees Limited Suite 2 North Town Mills Rue Du Pre, St Peters Port Guernsey, GY11 LT	26,140,091	17.80
The Commonwealth Trust Company as Trustee of The Patrimony 2012 Trust[3] 29 Bancroft Mills Rd 2nd Floor, Wilmington Delaware DE 19806 USA	16,920,632	11.52
Alexander Yu. Djaparidze[4] Suite 53 Mykonos Court Aristide Charalambous 2 Nicosia 1077 Cyprus	2,716,307	1.85
Margin Finance Company Limited[5] Trident Chambers PO Box 146 Road Town Tortola, British Virgin Islands	1,570,000	1.07
Board of Directors of the Company and Management (other than Mr. Djaparidze)[6]	2,407,158	1.64
Total:	**82,637,734**	**56.27**

Notes:

(1) Mr. Alexander Putilov is the beneficial owner of the shares held by Burned Sun Limited, through his ownership of Burned Sun Limited.

(2) Mr. Alexander Yu. Djaparidze is the beneficial owner of the shares held by Cloudburst Orange Limited, through his ownership of Cloudburst Orange Limited. See also notes 3, 4 and 5 to this table.

(3) Mr. Djaparidze has an interest in the shares held by The Patrimony 2012 Trust, which is a trust set up for members of Mr. Djaparidze's family. The holding shown includes 1,460 shares held by his two minor children, Ivan Djaparidze and Yuliy Djaparidze. See also notes 2, 4 and 5 to this table.

(4) Mr. Djaparidze is our Chief Executive Officer as well as a member of our Board of Directors. Together with the holdings referred to in notes 2, 3 and 5 to this table, Mr. Djaparidze and his affiliates together currently have an interest in 47,347,030 of our shares or 32.24% of our issued share capital. In addition, Mr. Djaparidze intends to acquire shares of the Company owned by Hadar Fund Ltd. (the "**Hadar Fund**"), an investment fund that currently holds an interest in certain of the Company's shares, by way of a redemption in kind of shares held by Mr. Djaparidze in the Hadar Fund. In the event that this transaction proceeds and is completed, Mr. Djaparidze and his affiliates would together have an interest in approximately 48,722,790 of our shares or approximately 33.17% of our issued share capital (including the interests in our shares held by Cloudburst Orange Limited, by The Patrimony 2012 Trust, by Mr. Djaparidze directly and by Margin Finance Company Limited).

(5) A family trust of Mr. Djaparidze is the beneficial owner of the shares held by Margin Finance Company Limited, through its ownership of Margin Finance Company Limited. See also notes 2, 3 and 4 to this table.

(6) This represents the aggregate holding of members of the Board of Directors of the Company, our Management and their affiliates (other than Mr. Djaparidze). Earl of Clanwilliam, Mr. Anderson, Mr. Hansen, Mr. Matzke, Mr. Sampiev, Mr. Redd and Mr. Stinemetz together beneficially own 2,407,158 of our shares or 1.64% of our issued share capital.

Mr. Djaparidze and his affiliates together currently have an interest in 47,347,030 of our shares or 32.24% of our issued share capital. In addition, Mr. Djaparidze intends to acquire shares of the Company owned by the Hadar Fund, an investment fund that currently holds an interest in certain of the Company's shares, by way of a redemption in kind of shares held by Mr. Djaparidze in the Hadar Fund. In the event that this transaction proceeds and is completed, Mr. Djaparidze and his affiliates would together have an interest in approximately 48,722,790 of our shares or approximately 33.17% of our issued share capital (including the interests in our shares held by Cloudburst Orange Limited, by The Patrimony 2012 Trust, by Mr. Djaparidze directly and by Margin Finance Company Limited — see notes 2, 3, 4 and 5 to the table above). The Company is incorporated in the Cayman Islands and is subject to measures that seek to protect the rights of minority shareholders. See also "Risk Factors — Risks Related to Our Business — The interests of Mr. Djaparidze, who is the largest shareholder of the Company, may conflict with those of the Noteholders."

DESCRIPTION OF THE ISSUER AND THE GUARANTORS

Issuer

The Issuer, EDC Finance Limited, was incorporated in Ireland on March 7, 2013, with registered number 524833 as a private company with limited liability under the Companies Acts 1963 – 2012 of Ireland (the "**Companies Acts**"). The registered office of the Issuer is 31 Fitzwilliam Square, Dublin 2, Ireland and its telephone number is + 353 1 905 8020.

Share capital and ownership

The authorized share capital of the Issuer is EUR 1,000,000 divided into 1,000,000 ordinary shares of par value EUR 1.00 each (the "**Shares**"). The Issuer has issued one Share, which is fully paid and is held by the Company. The Issuer is a wholly-owned subsidiary of the Company.

Pursuant to the Articles of Association of the Issuer, the Board is responsible for the management of the Issuer. Under Irish law, for as long as the Issuer is solvent, the Board is required to act in the best interests of the Issuer.

The relationship between the Issuer and the Company, the sole shareholder of the Issuer, is governed by the memorandum and articles of association of the Issuer and Irish law, including the Companies Acts and regulations made thereunder.

Cafico Corporate Services Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on April 15, 2013 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary.

The Corporate Services Provider's principal office is 31 Fitzwilliam Square, Dublin 2, Ireland.

Principal Activities

The principal objects of the Issuer are set forth in clause 2 of its memorandum of association (as currently in effect) and permit the Issuer, inter alia, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organized as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use amounts equal to the proceeds of each such issuance to advance loans to Group companies.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a private company under the Companies Acts and those related to the issue of the Notes. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the Board of Directors of the Issuer will consist of at least two Directors. The Directors of the Issuer and their business addresses are as follows:

- Rodney O'Rourke, 31 Fitzwilliam Square, Dublin 2, Ireland;

- Yolanda Kelly, 31 Fitzwilliam Square, Dublin 2, Ireland; and
- William Richard Anderson, 3720 College Park Drive, Apt. 8305, The Woodlands, Tx 77384, USA.

The Company Secretary is Cafico Secretaries Limited. The Directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. There are no current or potential conflicts of interest between the private interests and/or other duties of any member of the Issuer's Board of Directors and the duties of the members of the Issuer's Board of Directors to the Issuer.

Save for the issue of the Notes and related arrangements, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

Financial Statements

Since its date of incorporation, the Issuer has not commenced operations and no financial statements of the Issuer have been prepared as of the date of this Prospectus. The financial year of the Issuer ends on 31 December in each year. The Issuer will not prepare interim financial statements.

Each year, a copy of the audited financial statements of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The audited financial statements can be obtained free of charge from the registered office of the Issuer when available.

Guarantors

For the year ended December 31, 2012, the non-Guarantor subsidiaries within the Group accounted for less than 20 per cent. of each of total consolidated net assets and total EBITDA of the Group. For the year ended December 31, 2011, the non-Guarantor subsidiaries within the Group accounted for less than 20 per cent. of total consolidated net assets of the Group, but for 22.5% of total EBITDA of the Group. The reason why EBITDA in 2011 for the Guarantors fell below 80% of total EBITDA was because SGC-Drilling, one of the Guarantors, was acquired at the end of April 2011. As a result, the 2011 consolidated results include only eight months of SGC-Drilling's results. In addition, as is usually the case with new acquisitions, there is a brief integration period for the newly acquired business to operate at full capacity. This had the effect of reducing EBITDA. We believe that, but for these factors, EBITDA of the Guarantors in 2011 would have exceeded 80% of total EBITDA of the Group. The above percentages are based on the Group's audited consolidated financial statements for the years ended December 31, 2012 and 2011.

Eurasia Drilling Company Limited

Incorporation and Status

The Company was incorporated on November 25, 2002 as an exempted company incorporated with limited liability under the laws of the Cayman Islands with registration number 121302. The registered office of the Company is Boundary Hall, Cricket Square, PO Box 1111, Grand Cayman KY1-1102 and its telephone number is +357 22378178.

Purpose

The objects for which the Company was established are unrestricted and it has the full power and authority to carry out any object not prohibited by the Companies Law of the Cayman Islands (as amended). The Company's objects are set out in Section 3 of its memorandum of association.

Share Capital

The Company's authorized share capital is US$2,500,000, comprising of 250,000,000 ordinary shares with a nominal value of US$0.01 each, with 146,865,243 fully-paid ordinary shares currently in issue.

Organizational Structure

The Company is the main holding company of the Group. "See Business — Organizational Structure."

Business

The Company is a holding company.

Directors and management

For the directors and management of the Company, see "Management."

Dividends

The Company's dividends are approved by its directors. The Company distributed US$103 million, US$69 million and US$45 million in dividends for the years ended December 31, 2012, 2011 and 2010, respectively. In April 2010, the Company distributed a one-off special interim dividend of US$179 million in connection with the placement of treasury shares.

Auditors

ZAO KPMG is the auditor of the Company.

OOO Burovaya Kompaniya Eurasia

Incorporation and Status

BKE was incorporated on November 11, 1998, as a limited liability company organized under the laws of the Russian Federation with registration number 1028601443034. The registered office of BKE is 40 Bld. 2, Narodnogo Opolcheniya, 123298 Moscow, Russia and its telephone number is +7 495 961 0252.

Purpose

BKE's purpose, as set out in its charter, is to make profit from entrepreneurial activities. Its primary type of activities, as set out in its charter, is to drill exploration and production oil and gas wells, as well as injection wells, in Russia and abroad.

Charter Capital

BKE's charter capital is RUB 576,070,000 comprising a single participation interest which is owned by a 100%-owned direct subsidiary of the Company, Cypress Oilfield Holdings Ltd, and which has been fully paid.

Organizational Structure

BKE is owned by a 100%-owned direct subsidiary of the Company, Cypress Oilfield Holdings Ltd. See "Business — Organizational Structure."

Business

BKE is an onshore drilling contractor in Russia. See "Business — Onshore Drilling Services" for a further description of BKE's activities.

Directors and management

BKE is managed by its board of directors and its President. Mr. Alexander Bogachev is the President of BKE. The following individuals are members of the board of directors of BKE: Mr. Alexander Yu. Djaparidze and Mr. Dmitriy Timonin. The business address of Mr. Djaparidze is No. 53, Mykonos Court, Aristide Charalambous 2, 1077 Nicosia, Cyprus. The business address of Mr. Timonin is 40 Bld. 2, Narodnogo Opolcheniya, 123298 Moscow, Russia.

There are no current or potential conflicts of interest between the private interests and/or other duties of any member of BKE's board of directors or its President and the duties of the members of BKE's board of directors or its President to BKE.

Dividends

BKE’s dividends are approved by its single participant. BKE distributed US$19 million, US$29 million and US$29 million in dividends for the six month period ended June 30, 2012 and the years ended December 31, 2011 and 2010, respectively.

Auditors

ZAO KPMG is the auditor of BKE.

OOO SGC-Drilling

Incorporation and Status

SGC-Drilling was incorporated on July 6, 2001 as a limited liability company organized under the laws of the Russian Federation with registration number 1027700305599. The registered office of SGC-Drilling is 59, Republic Street, 625000 Tyumen, Tyumen Region, Russia and its telephone number is +7 3452 522 204.

Purpose

SGC-Drilling’s purpose, as set out in its charter, is to make profit from entrepreneurial activities. Its primary type of activities, as set out in its charter, is the provision of oilfield services, including geological works and research, geophysical services, drilling services, well completion, development and workover services, cementing, fluid management, well stimulation, acidizing, fractionation, shooting or gun perforation of cased wells.

Charter Capital

SGC-Drillings charter capital is RUB 96,392,392.79 comprising a single participation interest which is owned by a 100%-owned direct subsidiary of the Company, Cypress Oilfield Holdings Ltd, and which has been fully paid.

Organizational Structure

SGC-Drilling is owned by a 100%-owned direct subsidiary of the Company, Cypress Oilfield Holdings Ltd. See “Business — Organizational Structure.”

Business

SGC-Drilling is an onshore drilling contractor in Russia. See “Business — Onshore Drilling Services” for a further description of SGC-Drilling’s activities.

Directors and management

SGC-Drilling is managed by its general director. Mr. Yuri Vetluzhskikh is the general director of SGC-Drilling. His business address is 59, Republic Street, 625000 Tyumen, Tyumen Region, Russia.

There are no current or potential conflicts of interest between the private interests and/or other duties of Mr. Vetluzhskikh and his duties to SGC-Drilling.

Dividends

SGC-Drilling’s dividends are approved by its single participant. No dividends (nil) were distributed for the years ended December 31, 2012, 2011 and 2010.

Auditors

ZAO KPMG is the auditor of SGC-Drilling.

TERMS AND CONDITIONS OF THE NOTES

The US$600,000,000 4.875 per cent. guaranteed notes due 2020 of EDC Finance Limited (the "**Issuer**") (the "**Notes**", which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith) are unconditionally and irrevocably guaranteed by Eurasia Drilling Company Limited (the "**Company**"), OOO Burovaya Kompaniya Eurasia ("**BKE**") and OOO SGC-Drilling ("**SGC**" and, together with the Company and BKE the "**Guarantors**", which expression shall include any Further Guarantors pursuant to Condition 4.14).

The Notes are constituted by a trust deed dated 17 April 2013 (the "**Trust Deed"**) between the Issuer, the Guarantors and Citibank, N.A., London Branch (the "**Trustee**", which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer and the Guarantors have entered into an agency agreement dated 17 April 2013 (the "**Agency Agreement**") with the Trustee, Citibank, N.A., London Branch as principal paying and transfer agent (the "**Principal Paying and Transfer Agent**" and, together with any other paying agents appointed under the Agency Agreement, the "**Paying Agents**"), Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**") and the Transfer Agents named therein. The Registrar, Paying Agents and Transfer Agents are together referred to herein as the "**Agents**."

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office of the Issuer (being at the date hereof 31 Fitzwilliam Square, Dublin 2, Ireland), the specified office of the Trustee, being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom), and at the specified offices of the Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed are deemed to have notice of those provisions of the Agency Agreement applicable to them.

Capitalised terms used but not defined in these Conditions shall have the respective meanings given to them in the Trust Deed.

1. FORM AND DENOMINATION

The Notes are issued in fully registered form, serially numbered and without interest coupons attached, in minimum denominations of US$200,000 or integral multiples of US$1,000 in excess thereof (each an "**Authorised Denomination**"). The Notes may be transferred only in amounts not less than an Authorised Denomination.

*Notes sold to qualified institutional buyers (within the meaning of Rule 144A under the US Securities Act of 1933, as amended (the "**Securities Act**")) ("**QIBs**") in the United States in reliance on Rule 144A (the "**Restricted Notes**") will be represented by a restricted global registered note certificate (the "**Restricted Global Note**"). Notes sold to investors outside the United States in reliance on Regulation S under the Securities Act (the "**Unrestricted Notes**") will be represented by an unrestricted global note certificate (the "**Unrestricted Global Note**" and together with the Restricted Global Note, the "**Global Notes**"). The Unrestricted Global Note will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The Restricted Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee for DTC.*

*The Notes are initially issued in global, fully registered form, and will only be exchangeable for certificates representing Notes in definitive, fully registered form ("**Definitive Note Certificates**") in the limited circumstances set forth in the Global Notes.*

2. GUARANTEES AND STATUS

Guarantees

2.1 The Guarantors have in the Trust Deed unconditionally and irrevocably, guaranteed the payment when due of all sums expressed to be payable by, and all other obligations of, the Issuer under the Trust Deed and the Notes (the "**Guarantees**", which expression shall include any Further Guarantees pursuant to Condition 4.14).

2.2 The Guarantors have undertaken in the Trust Deed that so long as any of the Notes remains outstanding (as defined in the Trust Deed) they will not take any action for the liquidation or winding-up of the Issuer.

Status

2.3 The Notes constitute direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Issuer and shall at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. Each of the Guarantees constitutes direct, unsubordinated and (subject to Condition 4.1) unsecured obligations of the Guarantor providing such Guarantee and shall at all times rank at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Guarantor providing such Guarantee, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

3. REGISTER, TITLE AND TRANSFERS

Register

3.1 The Registrar shall maintain a Register in respect of the Notes (the "**Register**") outside the United Kingdom at the specified office for the time being of the Registrar in accordance with the provisions of the Agency Agreement and shall record in the Register the names and addresses of the Noteholders, particulars of the Notes and all transfers and redemptions thereof. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

Ownership of beneficial interests in the Restricted Global Note will be limited to Persons that have accounts with DTC or Persons that may hold interests through such participants. Ownership of beneficial interests in the Unrestricted Global Note will be limited to Persons that have accounts with Euroclear or Clearstream, or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book-entry form by DTC and its participants or by Euroclear, Clearstream and their participants, as applicable. Global Notes will be exchangeable for Notes in definitive form only in certain limited circumstances specified in the Global Notes.

Title

3.2 Title to the Notes will pass by and upon registration in the Register. The Holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note Certificate) and no person shall be liable for so treating such Holder.

Transfers

3.3 Subject to Conditions 3.6 and 3.7 below, a Note may be transferred in whole or in part in an Authorised Denomination upon surrender of the relevant Definitive Note Certificate representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the "**Transfer Form**"), duly completed and executed, at the specified office of a Transfer Agent or of the Registrar, together with such evidence as such Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Note Certificate are the subject of the transfer, a new Definitive Note Certificate in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3.4. Neither the part transferred nor the balance not transferred may be less than US$200,000.

Registration and delivery of Definitive Note Certificates

3.4 Within five Business Days of the surrender of a Definitive Note Certificate in accordance with Condition 3.3 above, the Registrar shall register the transfer in question and deliver a new Definitive Note Certificate to each relevant Holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of a Transfer Agent or (at the request and risk of such relevant Holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

No Charge

3.5 The registration of the transfer of a Note shall be effected without charge to the Holder or transferee thereof, but against such indemnity from the Holder or transferee thereof as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

Closed periods

3.6 Noteholders may not require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note.

Regulations concerning Transfer and Registration

3.7 All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in the First Schedule to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be sent by the Registrar free of charge to any person who so requests and will be available at the specified office of the Registrar.

4. COVENANTS

Negative Pledge

4.1 Each of the Issuer and the Guarantors shall not, and the Guarantors shall procure that each Material Subsidiary shall not, directly or indirectly, create, incur, assume, permit or suffer to exist any Security Interest, other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, any of its properties or assets (including any share capital of any Subsidiary of the Company), whether owned at the Issue Date or thereafter acquired, or on any income, revenue or profits therefrom, to secure any Indebtedness, without at the same time or prior thereto (a) securing the Notes equally and rateably therewith to the satisfaction of the Trustee or (b) providing such other security for the Notes as (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

Limitation on Indebtedness

4.2

(a) The Issuer and the Guarantors shall not, and the Company shall procure that each of its Subsidiaries shall not, incur, directly or indirectly, any Indebtedness; *provided*, *however*, that the Company and each of its Subsidiaries will be entitled to incur Indebtedness if:

(i) after giving effect to such incurrence and the application of the proceeds thereof, on a *pro forma* basis, no Potential Event of Default or Event of Default would occur or be continuing; and

(ii) on the date of such incurrence and after giving effect thereto and the application of the proceeds thereof, on a *pro forma* basis the Group Leverage Ratio does not exceed 3.5 to 1.

(b) Notwithstanding Condition 4.2(a), the Company and any of its Subsidiaries shall be entitled to incur Permitted Indebtedness.

(c) Notwithstanding the foregoing, neither the Company nor any Subsidiary of the Company shall incur any Indebtedness pursuant to Condition 4.2 if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of the Group unless such Indebtedness shall be subordinated to the Notes or the applicable Guarantee to at least the same extent as such Subordinated Obligations.

(d) For purposes of determining compliance with this Condition 4.2:

(i) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described in Conditions 4.2(a) or 4.2(b), the Company, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of incurrence and will only be required to include the amount and type of such Indebtedness in one of the above sub-Conditions;

(ii) the Company will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described in Conditions 4.2(a) or 4.2(b) and may change the classification of an item of Indebtedness (or any portion thereof) to any other type of Indebtedness described in Conditions 4.2(a) or 4.2(b) at any time. The outstanding principal amount of any particular Indebtedness shall be counted only once and any obligations arising under any guarantees, Security Interest, letters of credit or similar instrument supporting such Indebtedness shall not be double counted; and

(iii) any entity that is allowed to incur Indebtedness under Condition 4.2(a) or Condition 4.2(b) (and the definition of Permitted Indebtedness) may provide a guarantee of any other entity's incurrence of such Indebtedness, *provided* that such other entity incurs such Indebtedness pursuant to Condition 4.2(a) or Condition 4.2(b) (and the same paragraph of the definition of Permitted Indebtedness) under which the guaranteeing entity provides its guarantee of such Indebtedness.

(e) For purposes of determining compliance with the foregoing restriction on the incurrence of Indebtedness where the Indebtedness incurred is denominated in a currency other than US dollars, the amount of such Indebtedness will be the US Dollar Equivalent determined on the date of the incurrence of such Indebtedness; *provided*, *however*, that if any such Indebtedness denominated in a currency other than US dollars is subject to a Currency Agreement with respect to US dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in US dollars will be as provided in such Currency Agreement. Notwithstanding any other provision of this Condition 4.2, the maximum amount that the Company or a Subsidiary of the Company may incur pursuant to this Condition 4.2 shall not be deemed to be exceeded, with respect to outstanding Indebtedness, due solely as a result of fluctuations in the exchange rates of currencies.

Mergers

4.3 The Guarantors shall not and the Company shall ensure that its Subsidiaries shall not enter into any Merger, corporate reorganisation (whether by way of an accession, division, separation or transformation, as these terms are construed by applicable legislation in the jurisdiction of incorporation of the Company or such Subsidiary of the Company, as applicable), or participate in any other type of corporate reorganisation, in each case if such action would have a Material Adverse Effect.

Notwithstanding the foregoing, a corporate reorganisation or other analogous event wholly between Subsidiaries of the Company, and of Subsidiaries of the Company into any of the Guarantors (provided that the surviving entity will be any of the Guarantors), shall be permitted.

Notwithstanding the foregoing, the Issuer shall not enter into any Merger, corporate reorganisation (whether by way of an accession, division, separation or transformation, as these terms are construed by applicable legislation in Ireland), or participate in any other type of corporate reorganisation.

Disposals

4.4 The Issuer and the Guarantors shall not, and shall not permit any other Material Subsidiaries to, consummate any Asset Sale, unless the proceeds received by the Issuer, such Guarantor or such Material Subsidiary, as the case may be, are at least equal to the Fair Market Value of the assets sold or disposed of.

Reports

4.5

(a) As long as any Notes are outstanding, the Company shall send to the Trustee:

(i) within 150 days after the end of each financial year, Financial Statements containing the audited statements of financial position of the Group as of the end of the last financial year and audited statements of comprehensive income, of cash flows and of changes in equity of the Group for the last financial year, in each case prepared in accordance with the Accounting Standards, and including complete notes to such Financial Statements and the independent auditor's report on the Financial Statements; and

(ii) within 90 days after the end of the first semi-annual period of each financial year of the Group thereafter, Financial Statements containing the unaudited statements of financial position of the Group as of the end of such period and unaudited statements of comprehensive income, of cash flows and of changes in equity of the Group for the period ending on the unaudited balance sheet date, and the comparable prior year periods, in each case prepared in accordance with the

Accounting Standards, and including condensed notes to such interim condensed Financial Statements (unaudited) of the Group together with a review report thereon conducted in accordance with the Accounting Standards.

(b) The Company shall also (i) so long as the Notes are listed on the Stock Exchange (or any alternative stock exchange), make such Financial Statements available on the official website of the Stock Exchange (or such alternative stock exchange), to the extent required and in the manner permitted by the rules of the Stock Exchange (or such alternative stock exchange) and (ii) make such Financial Statements available on the website of the Company, each within the respective time periods referred to in Condition 4.5(a) above. All Financial Statements referred to in this section will be available for inspection at the respective offices of the Principal Paying and Transfer Agent. Any Noteholder may request that a copy of any such Financial Statements be mailed to such Noteholder, at the expense of the Issuer, by written request to the Principal Paying and Transfer Agent.

(c) In addition, so long as any of the Notes are restricted securities (as defined in Rule 144 under the Securities Act) and during any period during which the Company is not subject to the reporting requirements of the Exchange Act or exempt therefrom pursuant to Rule 12g3-2(b), the Company will furnish to any Holder or beneficial owner of Notes initially offered and sold in the United States to Qualified Institutional Buyers pursuant to Rule 144A under the Securities Act, and to prospective purchasers in the United States designated by such Holder or beneficial owners, upon request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Payment of Taxes and Other Claims

4.6 So long as any amount remains outstanding under the Notes, the Issuer and each Guarantor shall, and the Company shall procure its Subsidiaries to, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of the Issuer, the Guarantors or any such Subsidiary, as the case may be, (which, in the context of any entity incorporated in the Russian Federation, shall mean the earlier of either a ruling of the tax inspection based on an act of audit (*reshenie, vynesennoye po aktu proverki*) or a request to pay taxes (*trebovanie ob uplate nalogov*) and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Security Interest (other than a Permitted Security Interest) upon the property of the Issuer, the Guarantor or any such Subsidiary, as the case may be; provided, however, that none of the Issuer, any Guarantor nor any such Subsidiary, as the case may be, shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment or charge or any such claim (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings or (ii) where the aggregate of all such taxes, assessments, charges or claims does not exceed US$50,000,000 or the US Dollar Equivalent thereof at any time.

Maintenance of Authorisations

4.7

(a) Each of the Issuer (with respect only to itself and the Notes) and the Guarantors shall obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in the Cayman Islands, Russia, Ireland or any other relevant jurisdiction for the purposes of the execution, issue, delivery or performance of the Notes and the Trust Deed and for the validity and enforceability thereof.

(b) Each of the Issuer and the Guarantors shall, and the Company shall procure that each Material Subsidiary shall, obtain, make or do, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals, authorisations and things, which may at any time be required to be obtained or made to ensure the continuance of its corporate existence and its Restricted Business and for its ability to own its assets, except, in the case of Material Subsidiaries, where such failure would not have a Material Adverse Effect.

Maintenance of Property

4.8 Each of the Issuer and the Guarantors shall, and the Company shall cause each other Subsidiary to, cause all property that is material in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgment of the Issuer, the Guarantors or the Company, as the case may be, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times, unless the failure to do so would not have a Material Adverse Effect.

Maintenance of Insurance

4.9 Each of the Issuer and the Guarantors shall, and the Company shall cause each other Subsidiary to, keep those of their properties which are of an insurable nature insured with insurers of good standing against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdictions, provided that if the Issuer, the Guarantors or the Company, as the case may be, can remedy any failure to comply with the above within 90 days or if such potential losses or risks would not have a Material Adverse Effect, this covenant shall be deemed not to have been breached.

Change of Business

4.10 The Company shall procure that no material change is made to the general nature of the principal business of the Group as conducted as at the Issue Date (being the provision of onshore and offshore drilling services, well construction, sidetracking and workover services in the oilfield services industry) (the "**Restricted Business**").

Environmental Compliance

4.11 Each of the Issuer and the Guarantors shall, and the Company shall cause each other Subsidiary to, obtain all Environmental Approvals required by all applicable laws and that it will comply with all Environmental Laws and Environmental Approvals applicable to it and will take all reasonable steps in anticipation of known or expected future changes to or obligations under the same, except where failure to do so would not have a Material Adverse Effect.

Claims Pari Passu

4.12 Each of the Issuer and the Guarantors shall ensure at all times the claims of the Noteholders against (i) the Issuer under the Notes shall rank at least pari passu among themselves and at least pari passu in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer and (ii) each Guarantor under the respective Guarantees, shall rank at least pari passu in right of payment with all other present and future unsecured and unsubordinated obligations of the Guarantor giving such Guarantee, save in the case of each of (i) and (ii) for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Covenant Suspension

4.13 If on any date following the Issue Date (the "**Suspension Date**").

(a) the Notes have Investment Grade Status; and

(b) no Potential Event of Default or Event of Default has occurred and is continuing on such date,

(together, the "**Suspension Conditions**"), and such conditions are certified to the Trustee in an Officers' Certificate, then beginning on the Suspension Date and continuing until such time (the "**Reversion Date**"), if any, at which the Notes cease to have Investment Grade Status (such period, the "**Suspension Period**"), the Issuer, the Guarantors and any other Subsidiary of the Company (as applicable) will be not be subject to Conditions 4.2, 4.4, 4.6, 4.7, 4.8, 4.9 and 4.11 (the "**Suspended Covenants**") and, in each case, any related Potential Events of Default or Events of Default under Condition 9 will cease to be effective and will not be applicable to the Issuer, the Guarantors or any Subsidiary of the Company (as applicable).

If a Reversion Date occurs, the Issuer, the Guarantors and the Subsidiaries of the Company (as applicable) will thereafter again be subject to the Suspended Covenants until such time (if any) as the Suspension Conditions are again satisfied.

Notwithstanding that the Suspended Covenants may be reinstated upon the occurrence of a Reversion Date, no Potential Event of Default or Event of Default will be deemed to have occurred as a result of any (i) actions of the Issuer, the Guarantors or any Subsidiary of the Company (as applicable) taken or committed to be taken during the Suspension Period pursuant to law, court or government orders, resolutions of the relevant board of directors or other management body of a relevant member of the Group or a binding and legally effective contract; or (ii) any omission or failure by the Issuer, the Guarantors or any Subsidiary of the Company (as applicable) to act in respect of any of the Suspended Covenants during the Suspension Period. If, following the occurrence of a Reversion Date, any act or omission of the Issuer, the Guarantors or any Subsidiary of the Company (as applicable), in respect of Conditions 4.6, 4.7, 4.8 or 4.9, which would have been a Potential Event of Default or Event of Default during the Suspension Period but for the operation of this Condition 4.13 is continuing, the Issuer and the Guarantors shall have 60 days to cure and remedy any such event and during such period such act or omission shall not constitute a Potential Event of Default of an Event of Default. On the Reversion Date, all Indebtedness incurred during the Suspension Period will be classified to have been incurred pursuant to one of the paragraphs of the definition of "Permitted Indebtedness" in Condition 21 (to the extent such Indebtedness would be permitted to be incurred thereunder as of the Reversion Date and after giving effect to Indebtedness incurred prior to the Suspension Period and outstanding on the Reversion Date). To the extent such Indebtedness would not be so permitted to be incurred pursuant to a paragraph of the definition of "Permitted Indebtedness", such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under paragraph (a) of the definition of "Permitted Indebtedness." On the Reversion Date, all disposals made during the Suspension Period will be classified to have been made in accordance with Condition 4.4. For the purpose of determining compliance with Condition 4.4, the 12 month period for determining the aggregate value of any disposals shall be reset to the Reversion Date and any amount of proceeds from a disposal made during the Suspension Period will be deemed to be reset to zero for the purposes of compliance with Condition 4.4. On the Reversion Date, all Security Interests made or entered into during the Suspension Period will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under paragraph (a) of the definition of "Permitted Security Interests."

Further Guarantees

4.14

(a) The Company shall ensure that on each date which is 90 days after the publication of the annual or semi-annual financial statements referred to in Condition 4.5 (each a "**Guarantor Testing Date**"):

  (i) aggregate total assets of the Guarantors (calculated on an unconsolidated basis in accordance with the Accounting Standards or under the local generally accepted accounting principles applicable to each such Guarantor where financial statements prepared under the Accounting Standards are not available in respect of such Guarantor), comprises 75 per cent. or more of the Group Total Assets in each case with reference to the last available annual or semi-annual balance sheet of the Guarantors and of the Group immediately preceding the Guarantor Testing Date; and

  (ii) EBITDA of the Guarantors (calculated on an unconsolidated basis based on information derived from financial statements prepared under the Accounting Standards or under the local generally accepted accounting principles applicable to each such Guarantor where financial statements prepared under the Accounting Standards are not available in respect of such Guarantor), comprises 75 per cent. or more of EBITDA in each case for the last annual or semi-annual period immediately preceding the Guarantor Testing Date.

(b) In the event that any of the tests in Condition 4.14(a) are not satisfied on any Guarantor Testing Date, the Company will cause additional Subsidiaries to execute and deliver to the Trustee a Further Guarantee, in the form set out in schedule 5 to the Trust Deed, pursuant to which such Subsidiary will unconditionally and irrevocably, on a joint and several basis with each other Guarantor, guarantee the payment of all money payable under the Notes and the Trust Deed and will become vested with all the duties and obligations of a Guarantor as if originally named as such, as soon as practicable (but in any event no later than 60 days following such Guarantor Testing Date), such that, if such additional Subsidiaries had been included as Guarantors prior to or as of such Guarantor Testing Date, each of the tests in Condition 4.14(a) would have been satisfied.

(c) In the event that both of the tests in Condition 4.14(a) are satisfied on any Guarantor Testing Date, the Company may elect that any Guarantor may be unconditionally released and discharged from its obligations under the Trust Deed or the Deed of Guarantee, as the case may be; provided that after giving effect to such release and discharge, both of the tests in Condition 4.14(a) would have been satisfied on that Guarantor Testing Date.

(d) Notwithstanding the foregoing, the Company may elect at any time that any additional Subsidiary shall become a Guarantor, and upon any such election, the Company will cause such Subsidiary to become a Guarantor and execute and deliver to the Trustee a Further Guarantee, in the form set out in schedule 5 to the Trust Deed, pursuant to which such Subsidiary will unconditionally and irrevocably, on a joint and several basis with each other Guarantor, guarantee the payment of all money payable under the Notes and the Trust Deed and will become vested with all the duties and obligations of a Guarantor as if originally named as such.

(e) The Issuer and/or the Company will give notice to the Trustee in accordance with Condition 16 forthwith upon any Guarantor ceasing to be a Guarantor or any additional Subsidiary becoming a Guarantor and, so long as the Notes are listed on the Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with any applicable rules of the Stock Exchange and/or such other exchange (including, if required by such rules, preparation of a supplemental prospectus) in relation thereto.

(f) The Issuer and/or the Company shall also procure that legal counsel reasonably acceptable to the Trustee delivers a legal opinion to the Trustee on the date of the execution of each Further Guarantee. Such legal opinion shall be in form and substance reasonably satisfactory to the Trustee, and shall confirm that each Further Guarantee constitutes legal, valid and binding obligations of the respective Further Guarantor, subject to customary exceptions, qualifications and limitations.

5. INTEREST

The Notes bear interest from and including the Issue Date at the rate of 4.875 per cent. per annum, payable semi-annually in arrear on 17 April and 17 October in each year (each an "**Interest Payment Date**").

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Holder, and (b) the day which is seven days after the Trustee or the Principal Paying and Transfer Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Noteholders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**."

Interest in respect of any Note shall be calculated per US$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of 4.875 per cent., the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6. REDEMPTION AND PURCHASE

Final redemption

6.1 Unless previously redeemed, or repurchased and cancelled, the Notes will be redeemed at their principal amount on 17 April 2020 (the "**Maturity Date**"). The Notes may not be redeemed at the option of the Issuer or the Guarantors other than in accordance with this Condition 6.

Redemption for tax reasons

6.2 The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable), at the principal amount thereof, together with interest accrued to the date fixed for redemption, if the Issuer or the Guarantors satisfy the Trustee immediately prior to the giving of such notice that (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in

Condition 8.1, or the Guarantors would be unable to procure payment by the Issuer and in making payment themselves would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws, treaties or regulations of any Relevant Jurisdiction, or any change in the published application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 17 April 2013 and (ii) such obligation cannot be avoided by the Issuer or the Guarantors taking reasonable measures available to them; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the relevant Guarantor, as the case may be, would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer or the relevant Guarantor, as the case may be, shall deliver to the Trustee (x) an Officers' Certificate stating that the obligation referred to in (i) above cannot be avoided by the Issuer or the Guarantors, as the case may be, taking reasonable measures available to them and the Trustee shall be entitled to accept such Officers' Certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and (y) an opinion of independent legal advisors of recognised standing to the effect that the Issuer or the relevant Guarantor, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

Purchase

6.3 The Company or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

Cancellation

6.4 All Notes redeemed or purchased pursuant to this Condition 6 may be cancelled or held and resold.

7. PAYMENTS

Principal and other amounts

7.1 Payment of principal and interest in respect of the Notes will be made to the persons shown in the Register at the close of business on the Record Date (as defined below). Payments of all amounts other than as provided in this Condition 7.1 will be made as provided in these Conditions.

Payments

7.2 Each payment in respect of the Notes pursuant to Condition 7.1 will be made by transfer to a US dollar account maintained by or on behalf of the payee with a bank in New York City. Payment instructions (for value on the due date or, if that is not a business day (as defined below), for value the first following day which is a business day) will be initiated on the business day preceding the due date for payment (for value the next business day).

Payments subject to fiscal laws

7.3 All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in any jurisdiction, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

Payments on business days

7.4 If the due date for any payment of principal or interest under this Condition 7 is not a business day, the Holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7 only, "**business day**" means any day on which banks are open for business in the place of the specified office of the relevant Paying Agent and, in the case of payment by transfer to a US dollar account as referred to above, on which dealings in foreign currencies may be carried on both in New York City and in such other place.

Record date

7.5 "**Record Date**" means the seventh business day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

Agents

7.6 The initial Agents and their initial specified offices are listed below. The Issuer and the Guarantors reserve the right to vary or terminate the appointment of all or any of the Agents at any time (with the written approval of the Trustee) and appoint additional or other paying or transfer agents, provided that the Issuer will at all times maintain (i) a Registrar and a Principal Paying and Transfer Agent, (ii) a Paying Agent and a Transfer Agent having specified offices in at least one major European city approved by the Trustee and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any such change will be provided to Noteholders as described in Condition 16.

8. TAXATION

8.1 All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or under any Guarantee by any of the Guarantors shall be made free and clear of, and without withholding or deduction for, or on account for, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the relevant Guarantor shall account to the relevant tax authorities for the amount so required to be withheld or deducted and increase the relevant payment so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(a) held by or on behalf of a Holder which is (i) liable to such taxes, duties, assessments or governmental charges in respect of such Note or the relevant Guarantee by reason of its (or its beneficial owners) having some connection with the Relevant Jurisdiction other than the mere holding of such Note or the benefit of the relevant Guarantee or (ii) able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim to the relevant taxing authority; or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note Certificate on the last day of such period of 30 days; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a member state of the European Union; or

(e) to a Noteholder in respect of taxes, duties, assessments or governmental charges that are imposed or withheld by reason of the failure of the Noteholder to comply with a request of, or on behalf of, the Issuer or the relevant Guarantor addressed to the Noteholder to provide information concerning the nationality, residence or identity of such Noteholder or to make any declaration or similar claim or satisfy any information or reporting requirement, which is required or imposed by a statute, treaty, regulation, protocol or administrative practice as a precondition to exemption from all or part of such taxes, duties, assessments or governmental charges; or

(f) where such withholding or deduction is required pursuant to Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

8.2 In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in New York City by or for the account of the Principal Paying and Transfer Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 16.

8.3 Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

9. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by Noteholders holding not less than 25 per cent. of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) shall (subject in each case to its being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable at their principal amount together with accrued interest if any of the following events occurs and is continuing (each an "**Event of Default**"):

(a) the Issuer, or where applicable, any of the Guarantors, fails to pay the principal of or any interest on any of the Notes when due (whether at its stated maturity, on optional redemption, on required purchase, on declaration of acceleration or otherwise) and such failure continues for a period of five Business Days; or

(b) the Issuer or any of the Guarantors, as the case may be, defaults in the performance or observance of any of their respective other obligations under the Notes or the Trust Deed, as the case may be, and except where such default is not, in the opinion of the Trustee, capable of remedy, such default, in the opinion of the Trustee, remains unremedied for 30 calendar days after written notice thereof, addressed to the Issuer and the Guarantors, has been delivered by or on behalf of the Trustee to the Issuer and the Guarantors; or

(c) a default under any Indebtedness of the Issuer, any Guarantor or any other Subsidiary of the Company, if that default (i) is caused by a failure to pay any amounts due pursuant to such Indebtedness within any originally applicable grace period; or (ii) results in the acceleration of such Indebtedness prior to its stated maturity as a result of an event of default (howsoever described) under such Indebtedness; *provided* that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above individually or in the aggregate exceeds US$50,000,000 or the US Dollar Equivalent thereof; or

(d) the amount of unsatisfied judgments, decrees or orders of courts or dispute resolution bodies of competent jurisdiction that are not subject to further appeal for the payment of money against the Issuer, any Guarantor or any other Subsidiary of the Company in the aggregate at any given moment of time exceeds US$50,000,000 or the US Dollar Equivalent thereof and there shall have been a period of 30 calendar days during which a stay of enforcement of such judgement, decree or order, by reason of an appeal or otherwise, shall not be in effect; or

(e) the Issuer, any Guarantor or any other Subsidiary of the Company is unable or admits inability to pay its debts as they fall due, generally suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with its creditors generally with a view to a general rescheduling of any of its Indebtedness in excess of US$50,000,000 or the US Dollar Equivalent in aggregate; and/or a moratorium is declared in respect of any Indebtedness of any of the Issuer, any Guarantor or any other Subsidiary of the Company as a result of any action taken by any competent authority where, in the case of any Subsidiary other than the Guarantors, such inability, action or declaration would not have a Material Adverse Effect; or

(f) the occurrence of any of the following events: (i) the Issuer, any of the Guarantors or any Material Subsidiary ceases to have corporate existence or is seeking or consenting to (or an order is made or an effective resolution is passed for) the introduction of proceedings for its liquidation or the appointment of a liquidator, or liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of the Issuer, any Guarantor or any Material Subsidiary as the case may be or a petition in relation to the Issuer or any Material Subsidiary organised outside Russia, additionally, its winding up, examinership or dissolution (otherwise in each case than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent or in accordance with Condition 4.3); (ii) the acceptance by a court of competent jurisdiction, arbitration court or any competent agency of a petition in respect of any of the Issuer, the Guarantors or any Material Subsidiary alleging, or for, its bankruptcy, insolvency, examinership, dissolution, liquidation (or any analogous proceedings) or the declaration by such jurisdiction, court or agency of the insolvency or bankruptcy of any of the Issuer, any Guarantor or any Material Subsidiary (other than any vexatious or frivolous petition or where such petition is presented or filed by a person that is not the Company or a Subsidiary of the

Company, such petition remains undischarged for at least 60 calendar days); (iii) the institution, against any Guarantor or any Material Subsidiary organised within Russia of supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovleniye*), external management (v*neshneye upravleniye*) or bankruptcy management (*konkursnoye proizvodstvo*) or, with respect to the Issuer, the Company or any Material Subsidiary organised outside Russia, the institution against the Issuer, the Company or any Material Subsidiary organised outside Russia of bankruptcy, examinership, insolvency, voluntary or judicial liquidation, composition with creditors, reprieve from payment, controlled management, fraudulent conveyance, general settlement with creditors or reorganisation; (iv) the entry by the Issuer, any Guarantor or any Material Subsidiary into, or the agreeing by the Issuer, any Guarantor or any Material Subsidiary to enter into any amicable settlement which, in the case of any entity in the Russian Federation and without limitation, shall include amicable settlement (*mirovoye soglasheniye*) with its creditors, as such terms are defined in the Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time); or (v) any judicial liquidation in respect of the Issuer, any Guarantor or any Material Subsidiary (otherwise for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent or in accordance with Condition 4.3); or

(g) any expropriation, attachment, sequestration, execution, Security Interest or distress is levied against or becomes enforceable and is enforced against, or an encumbrancer takes possession of or sells, the whole or any material part of, the property, undertaking, revenues or assets of the Group taken as a whole; or

(h) the Notes or the Trust Deed is held in any judicial or arbitral proceeding to be unenforceable or invalid or ceases to be legal, valid, binding and in full force and effect (other than in accordance with, the terms of such document) or the Issuer or any Guarantor denies, disaffirms, repudiates (or purports or evidences an intention to repudiate) its obligations under the Notes or the Trust Deed; or

(i) at any time it is or becomes unlawful for the Issuer or any Guarantor to perform or comply with any or all of its respective material obligations under any of the Notes or the Trust Deed and any such event continues for more than 30 Business Days; or

(j) any step is taken by or under state authority with a view to the seizure, compulsory acquisition, expropriation, or nationalisation of all or a material part of the undertaking, assets and revenues of the Issuer, any Guarantor or any Material Subsidiary; or

(k) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

10. PRESCRIPTION

Claims for the payment of principal and interest in respect of any Note shall be prescribed unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

11. REPLACEMENT OF DEFINITIVE NOTES

If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and Stock Exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Registrar may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

12. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

Meetings of Noteholders

12.1 The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth in aggregate principal amount of the Notes for the time being outstanding. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest payable on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes, (iv) to change the currency of payment under the Notes, (v) to modify the provisions in schedule 4 of the Trust Deed concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, (vi) to modify or cancel a Guarantee, or (vii) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer, any Guarantor or any other entity, in which case the necessary quorum will be one or more persons holding or representing not less than three-quarters of the aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting not less than one-quarter, of the aggregate principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed at any such meeting shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed). A written resolution signed by or on behalf of the Noteholders holding not less than 90 per cent. of the aggregate principal amount of Notes outstanding who are for the time being entitled to receive notice of a meeting in accordance with the Trust Deed will take effect as if it were a duly passed Extraordinary Resolution.

Modification and Waiver

12.2 The Trustee may agree with the Issuer and the Guarantors, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed, the Agency Agreement or the Notes which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed, which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable.

Entitlement of the Trustee

12.3 In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantors, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

13. ENFORCEMENT

At any time after the Notes become due and payable, the Trustee may, at its discretion (but subject to Condition 21) and without further notice, institute such proceedings against the Issuer and/ or the Guarantors as it may think fit to enforce the terms of the Trust Deed and/or the Notes (whether by arbitration pursuant to the Trust Deed or by litigation), but it need not take any such steps, actions or proceedings and nor shall the Trustee be bound to take, or omit to take any step or action (including instituting such proceedings) unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or any Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14. INDEMNIFICATION AND REMOVAL OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, any Guarantor and any entity related to the Issuer or any Guarantor without accounting for any profit. The Trustee may rely, without liability to Noteholders, on any certificate or report prepared by auditors, accountants or any other expert pursuant to the Trust Deed, whether or not addressed to the Trustee and whether or not the auditors', accountants' or experts' liability in respect thereof is limited by a monetary cap or otherwise. The Trust Deed provides that the Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove the Trustee (or any successor trustee or additional trustees) *provided* that the removal of the Trustee or any other trustee shall not become effective unless there remains a Trustee in office after such removal.

15. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from guarantees substantially in the form of the guarantees set out in the Trust Deed given in respect of the Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders for the holders of securities of other series where the Trustee so decides.

16. NOTICES

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register or by any means designated from time to time by any clearing system on which trades in Notes settle. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the Stock Exchange and the rules or guidelines of that exchange so require, notices will be published via the companies announcements office of the Stock Exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

So long as any of the Notes are represented by the Unrestricted Global Note, notices required to be published in accordance with this Condition 16 in respect of such Notes may be given by delivery of the relevant notice to Euroclear and Clearstream for communication by them to the relevant accountholders, provided that such notice is also delivered to the Stock Exchange and given in accordance with the rules of the Stock Exchange. So long as any of the Notes are represented by the Restricted Global Note, notices required to be published in accordance with this Condition 16 in respect of such Notes may be given by delivery of the relevant notice to DTC for communication to the relevant accountholders, provided that such notice is also delivered to the Stock Exchange and given in accordance with the rules of the Stock Exchange.

17. CURRENCY INDEMNITY

If any sum due from the Issuer in respect of the Notes or any Guarantor in respect of its Guarantee or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer or the relevant Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes or the relevant Guarantee, the Issuer, failing whom the Guarantors, shall indemnify each recipient, on the written demand of such recipient addressed to the Issuer and the Guarantors and delivered to the Issuer and the Guarantors or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such recipient may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer or, as the case may be, each Guarantor and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder or any other person and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed and/or the Notes or any other judgment or order.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent, if any, that the Notes expressly provide for such Act to apply to any of their terms.

19. GOVERNING LAW AND ARBITRATION

19.1 The Trust Deed and the Notes, including any non-contractual obligations arising out of or in connection therewith, are governed by and shall be construed in accordance with English law.

19.2

(a) The Issuer and the Guarantors have agreed with the Trustee in the Trust Deed that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Trust Deed or the Notes (including a claim, dispute or difference regarding its existence, termination or validity or in relation to any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the LCIA Rules as in force at the date of the Trust Deed and as modified by this Condition, which Rules shall be deemed incorporated into this Condition.

(b) The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator. The respondent(s), irrespective of number, shall nominate jointly the second arbitrator. The third arbitrator, who shall serve as Chairman, shall be nominated by agreement of the two party-nominated arbitrators. Failing such agreement within 15 days of the confirmation of the appointment of the second arbitrator, the third arbitrator shall be appointed by the LCIA. For the avoidance of doubt, for the purpose of Article 8.1 of the Rules, the claimant(s), irrespective of number, and the respondent(s), irrespective of number, shall constitute two separate sides for the formation of the arbitral tribunal.

(c) In the event that the claimant(s) or the respondent(s) fail to nominate an arbitrator in accordance with the Rules, such arbitrator shall be nominated by the LCIA as soon as possible, preferably within 15 days of such failure. In the event that the respondent(s) or both the claimant(s) and the respondent(s) fail to nominate an arbitrator in accordance with the Rules, all 3 arbitrators shall be nominated and appointed by the LCIA as soon as possible, preferably within 15 days of such failure, and such arbitrators shall then designate one amongst them as Chairman.

(d) The seat of arbitration shall be London, England and the language of the arbitration shall be English.

(e) The parties hereby exclude the jurisdiction of the courts under Sections 45 and 69 of the Arbitration Act 1996.

19.3 Each of the Issuer and the Guarantors has agreed in the Trust Deed that the process by which any proceedings are commenced in the English courts in support of, or in connection with, an arbitration commenced pursuant to Condition 19 may be served on it by being delivered to Aquila International Services Limited at 2nd Floor, Berkeley Square House, Berkeley Square, London W1J 6BD United Kingdom or, if different, Aquila International Services Limited's registered office from time to time or at any other address of the Issuer and the Guarantors in the United Kingdom at which process may be served on them in accordance with Part 34 of the Companies Act 2006 or any successor provision thereto. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer and/or any of the Guarantors, the Issuer and/or the relevant Guarantor shall, on the written demand of the Trustee, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 14 days, the Trustee shall be entitled to appoint such a person by written notice to the Issuer and/or the relevant Guarantor. Nothing in this paragraph shall affect the right of the Trustee and the Noteholders to serve process in any other manner permitted by law.

19.4 Each of the Issuer and the Guarantors agrees that any final judgment in any Proceeding commenced in a court to the jurisdiction of which the Issuer and/or any of the Guarantors is or may be subject may be enforced in that or any other such court by appropriate Proceedings. To the extent that the Issuer and/or any of the Guarantors may in respect of any Dispute be entitled to claim for itself or its assets, property or revenues (irrespective of their use or intended use) immunity from jurisdiction, suit, enforcement, execution, attachment (whether in aid of execution, before the making of a judgment or award or otherwise) or other legal process, including in relation to the enforcement of any arbitration award, and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer and/or any Guarantor or its assets, property or revenues, each of the Issuer and the Guarantors has in the Trust Deed irrevocably agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction.

19.5 Each of the Issuer and the Guarantors has in the Trust Deed irrevocably and generally consented, in respect of any proceedings anywhere, to the giving of any relief or the issue and service on it of any process in connection with those proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those proceedings.

20. NON-PETITION

For so long as the Issuer has Independent Directors on its board of directors, none of the Noteholders (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer or join in the institution against the Issuer proceedings in respect of bankruptcy, administration, moratorium, controlled management, arrangement, insolvency, examinership, winding-up, liquidation or insolvency ("**Insolvency Proceedings**") under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes. For the avoidance of doubt, the foregoing shall not restrict the Noteholders (or any person acting on behalf of any of them) from instituting any other proceedings against the Issuer or obtaining a judgment against the Issuer, even if such judgment may result in the Issuer becoming insolvent, provided such judgement shall not be enforced by instituting Insolvency Proceedings against the Issuer.

No Noteholder shall have any recourse against any Independent Director of the Issuer in their capacity as director of the Issuer in respect of any obligations, covenants or agreements entered into or made by the Issuer in respect of the Notes, other than in the case of fraud.

For the purposes of this Condition 20 an "**Independent Director**" is a director who is not also a director, officer or employee of the Company or any of its other non-Irish Subsidiaries.

This Condition 20 shall not apply to any successors or assigns of the Issuer, nor to any Substituted Obligor under Clause 13.2 (*Substitution*) of the Trust Deed.

The Issuer shall procure that each other financing agreement it enters into shall include a restriction to the effect of this Condition 20.

21. DEFINITIONS

In these Conditions the following terms have the meaning given to them in this Condition 21.

"**Accounting Standards**" means, as applicable, US GAAP, or, to the extent that the Company has both elected to prepare its consolidated financial statements on an IFRS basis and has commenced generating management reporting and financial data on such an IFRS basis, IFRS.

"**Affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (i) above. For the purposes of this definition, *control* when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms *controlling* and *controlled* have meanings correlative to the foregoing;

"**Asset Sale**" means any lease, sale, sale and lease-back, transfer or other disposition either in one transaction or in a series of related transactions, by the Company or any of its Subsidiaries to a Person that is not part of the Group, of any assets the value of which exceeds five per cent. of the Consolidated Total Assets in any 12 month period (determined in each case by reference to the most recent publicly available Financial Statements of the Group prepared in accordance with the Accounting Standards); provided that "Asset Sale" shall not include sales or other dispositions of inventory or stock in trade in the ordinary course of business;

"**Average Life**" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (a) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of, or redemption or similar payment with respect to, such Indebtedness multiplied by the amount of such payment by (b) the sum of all such payments;

"**Business Day**" means, other than for the purposes of Condition 7, a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Moscow, New York City and in the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying and Transfer Agent is located;

"**Capital Lease Obligation**" means an obligation that is required to be classified and accounted for as a finance lease for financial reporting purposes in accordance with the Accounting Standards, and the amount of Indebtedness represented by such obligation shall be the capitalised amount of such obligation determined in accordance with the Accounting Standards;

"**Code**" means the United States Internal Revenue Code of 1986, as amended;

"**Consolidated Total Assets**" means at the date of determination, the total assets of the Group as shown in the then most recent published Financial Statements of the Group.

"**Currency Agreement**" means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values;

"**EBITDA**" for any period means the Group's profit/loss for the period adjusted for income tax expense, finance income and expenses, share of net income/loss of joint ventures, depreciation and amortisation, impairment of property, plant and equipment and intangible assets, gain/loss on disposal of investments, property, plant and equipment, currency transaction gain/loss and exceptional items;

"**Environmental Approval**" means any authorisation required by an Environmental Law;

"**Environmental Law**" means any applicable law or regulation in any jurisdiction in which the Group conducts business concerning:

(a) the protection of health and safety;

(b) the environment; or

(c) any emission or substance which is capable of causing harm to any living organism or the environment;

"**Exchange Act**" means the US Securities Exchange Act of 1934, as amended;

"**Financial Statements**" means the consolidated financial statements of the Group, prepared in accordance with the Accounting Standards;

"**Fair Market Value**" means, with respect to any asset or property, the price that would be paid in an arms' length, free market transaction, for cash, between an informed, willing and able seller and an informed, willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined in good faith by a duly authorised officer of the Company or any of its Subsidiaries (as the case may be), whose determination (in the absence of fraud or manifest error) will be conclusive;

"**Fitch**" means Fitch Ratings Limited, any credit rating agency affiliate thereof or any successor to the rating agency business thereof;

"**Further Guarantee**" means any Guarantee executed in accordance with Condition 4.14;

"**Further Guarantor**" means any Person who executes a Further Guarantee from time to time;

"**Group**" means the Company and its Subsidiaries taken as a whole;

"**Group Indebtedness**" means at any date of determination all Indebtedness of the Company and its Subsidiaries (without duplication and netting out Indebtedness from one member of the Group to another member of the Group) outstanding as at the balance sheet date of the most recent published Financial Statements of the Group, as is shown on a statement of financial position of the Group as at such balance sheet date prepared in accordance with the Accounting Standards;

"**Group Leverage Ratio**" as of any date of determination (the "**Determination Date**"), means the ratio of (x) the aggregate amount of Group Indebtedness to (y) the aggregate amount of EBITDA for the period (the "**EBITDA Calculation Period**") of the two most recent consecutive semi-annual periods, ending prior to the date of such determination for which Financial Statements of the Group are available; *provided*, *however*, that:

(a) if (i) the Company or any Subsidiary of the Company has incurred any Indebtedness since the balance sheet date of the latest published Financial Statements of the Group published immediately preceding the date of determination (the "**Relevant Date**") which remains outstanding on the Determination Date or (ii) if the transaction giving rise to the need to calculate the Group Leverage Ratio is an incurrence of Indebtedness, or both, the Group Indebtedness for such period shall be calculated after giving effect on a *pro forma* basis to such Indebtedness and the use of proceeds therefrom as if such Indebtedness had been incurred on the first day of such period;

(b) if (i) the Company or any Subsidiary of the Company has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the Relevant Date or (ii) if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Group Leverage Ratio, or both, the Group Leverage Ratio shall be calculated on a *pro forma* basis as if such discharge had occurred on the Relevant Date;

(c) if since the Relevant Date the Company or any Subsidiary of the Company has made an Asset Sale as a result of which a Person ceased to be a Subsidiary of the Company, Group Indebtedness shall be reduced on a *pro forma* basis by an amount of indebtedness (to the extent originally included) equal to the indebtedness of such Person as if such Asset Sale had occurred on the Relevant Date; and

(d) if since the beginning of the EBITDA Calculation Period the Company or any Subsidiary of the Company (by merger or otherwise) shall have made an investment in any Subsidiary of the Company or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA for such period shall be calculated after giving *pro forma* effect thereto (including the incurrence of any Indebtedness) as if such investment or acquisition had occurred on the first day of such the EBITDA Calculation Period.

For purposes of this definition, whenever *pro forma* effect is to be given to an acquisition of assets and the amount of income or earnings relating thereto, the *pro forma* calculations shall be determined in good faith by an authorised officer of the Company;

"**Group Total Assets**" means at any date of determination the total assets of the Company and its Subsidiaries as shown in the most recently published statement of financial position of the Group prepared in accordance with the Accounting Standards;

"**guarantee**" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of reimbursement agreements in respect thereof, of all or any part of any Indebtedness;

"**Hedging Obligations**" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement;

"**IFRS**" means International Financial Reporting Standards issued by the International Accounting Standards Board (the "**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, consistently applied and which are in effect from time to time;

"**Indebtedness**" means, without double-counting, in respect of the Company and its Subsidiaries for or in respect of:

(a) moneys borrowed (the principal amount of which as determined in accordance with the Accounting Standards);

(b) any principal amount (as determined in accordance with the Accounting Standards) raised by acceptance under any acceptance credit facility;

(c) any principal amount (as determined in accordance with the Accounting Standards) raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) any principal amount (as determined in accordance with the Accounting Standards) raised under any other transaction having the economic or commercial effect of a borrowing; and

(e) the amount of any liability in respect of the guarantee or indemnity for, or similar undertaking given in respect of, any of the items referred to above in relation to any Person which is not the Company or its Subsidiary.

For the avoidance of doubt the following amounts shall not constitute "Indebtedness": (i) trade account payables arising solely in the ordinary course of business; (ii) advances received from customers; (iii) any tax liability and any letters of credit and bank guarantees issued in relation to trade related activities, customs activities or tax payments; and (iv) contingent liabilities other than with respect to items of Indebtedness described in the preceding sentence;

“**Interest Rate Agreement**” means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates;

“**Investment Grade Rating**” means a rating equal to or higher than Baa3 (or the equivalent) by Moody’s and BBB- (or the equivalent) by Fitch or Standard & Poor’s or, if applicable in relation to any other Rating Agency, an equivalent rating by such other Rating Agency;

“**Investment Grade Status**” shall be deemed to have been reached on the date that the Notes have an Investment Grade Rating from at least two of the Ratings Agencies;

“**Issue Date**” means 17 April 2013;

“**Material Adverse Effect**” means a material adverse effect on (a) the business, operations or financial condition of the Group taken as a whole; (b) the ability of the Issuer or any of the Guarantors to perform or comply with its material obligations under the Notes or the Trust Deed; or (iii) the validity and enforceability of the Notes or the Trust Deed or the rights or remedies of the Noteholders or the Trustee in connection therewith;

“**Material Subsidiary**” means any direct or indirect Subsidiary of the Company:

(a) whose total assets represent not less than 10 per cent. of Total Assets or whose total revenue represent not less than 10 per cent. of total revenue of the Group (determined by reference to the most recent publicly available annual or interim Financial Statements of the Group; or

(b) to which is transferred all or substantially all the assets and undertakings of a Subsidiary of the Company which immediately prior to such transfer is a Material Subsidiary;

“**Merge**” means consolidate with, merge with or into or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the property or assets of one person to another person and the term “**Merger**” shall be construed accordingly;

“**Moody’s**” means Moody’s Investors Service Limited, any credit rating agency affiliate thereof or any successor to the rating agency business thereof;

“**Officers’ Certificate**” means, a certificate executed on behalf of such person by one director of the Issuer or two duly authorised officers of a Guarantor, as the case may be; *provided* that every Officers’ Certificate with respect to the compliance with the Trust Deed shall include (i) a statement that the officers making or giving such Officers’ Certificate have read such condition and any definitions or other provisions contained in the Trust Deed relating thereto, (ii) a statement that, in the opinion of the officers, they have made or have caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such condition has been complied with, and (iii) a statement as to whether, in the opinion of the officers, such condition has been complied with;

“**Permitted Indebtedness**” means any or all of the following Indebtedness:

(a) Indebtedness outstanding at the Issue Date;

(b) Indebtedness represented by the Notes and the Guarantees;

(c) Refinancing Indebtedness incurred by the Company or any Subsidiary of the Company to Refinance Indebtedness;

(d) Indebtedness incurred pursuant to Hedging Obligations incurred; providing that such Hedging Obligations are entered into in the ordinary course of business of the Group and not for speculative purposes;

(e) Indebtedness in respect of workers’ compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;

(f) customer deposits and advance payments received from customers in the ordinary course of business of the Group;

(g) intercompany and intra-Group Indebtedness owed to, and held by, the Company or a Subsidiary of the Company in respect of the Company or a Subsidiary of the Company; *provided*, *however*, that any subsequent disposition, pledge or transfer of such Indebtedness (other than to the Company or a Subsidiary of the Company) shall be deemed, in each case, to constitute the incurrence of such Indebtedness by the relevant obligor in respect of such Indebtedness;

(h) obligations in respect of performance, bid and surety bonds, completion guarantees, letters of credit, *veksels* (being Russian rouble-denominated short-term promissory notes) or similar obligations provided by the Company or any Subsidiary of the Company in the ordinary course of business of the Group, provided that, upon the drawing of such letters of credit or other instrument, such obligations are reimbursed within 30 days following such drawing;

(i) Purchase Money Indebtedness incurred to finance the acquisition by the Company or a Subsidiary of the Company of assets in the ordinary course of business of the Group;

(j) Indebtedness of a Subsidiary of the Company incurred and outstanding on or prior to the date on which such Subsidiary was acquired by the Company or a Subsidiary of the Company (other than Indebtedness incurred in connection with, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary of the Company or was acquired by the Company or a Subsidiary of the Company); *provided*, *however*, that on the date of such acquisition and after giving *pro forma* effect thereto (i) the Company and its Subsidiaries would have been entitled to incur at least US$1.00 of additional Indebtedness pursuant to Condition 4.2(a) or (ii) the Group Leverage Ratio is less after giving effect to the acquisition;

(k) Indebtedness of either the Company or any Subsidiary of the Company consisting of guarantees of Indebtedness of either the Company or any Subsidiary of the Company incurred under Condition 4.2(a) or any other paragraph of this definition; and

(l) in addition to the items referred to in paragraphs (a) to (k), Indebtedness of the Company and its Subsidiaries incurred in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness incurred pursuant to this paragraph (l) and then outstanding, will not exceed US$100,000,000 at any time outstanding;

"**Permitted Security Interests**" means:

(a) Security Interests existing on the Issue Date and extensions, refinancings, renewals and replacements of any such Security Interests so long as the principal amount of Indebtedness or other obligations secured thereby is not increased (other than by an amount necessary to pay any fees and expenses, including premiums, related to such extensions, refinancing, renewals or replacements) and so long as such Security Interests are not extended to any other property of the Company or any of its Subsidiaries;

(b) Security Interests created pursuant to paragraph (a), (b) or (d) of the definition of Permitted Indebtedness;

(c) Security Interests under worker's compensation laws, unemployment insurance laws or similar legislation, or to secure public or statutory obligations, surety bonds, customs duties, tenders, bid bonds and the like, or for the payment of rent, in each case incurred in the ordinary course of business of the Group and not securing Indebtedness;

(d) Security Interests imposed by law, such as carriers', vendors', warehousemen's and mechanics' liens, in each case for sums not yet due or being contested in good faith and by appropriate proceedings;

(e) Security Interests arising by operation of law and in the ordinary course of business of the Group or in respect of taxes, assessments, government charges or claims, including without limitation those in favour of Russian governmental fiscal authorities;

(f) Security Interests in respect of Taxes or assessments, government charges and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Company or its Subsidiaries have set aside in their books of account reserves to the extent required by the Accounting Standards, as consistently applied;

(g) Security Interests securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the proceeds thereof;

(h) (i) licenses or leases or subleases as licensor, lessor or sublessor of any of its property in the ordinary course of business of the Group and (ii) with respect to any leasehold interest where either the Company or any of the Subsidiaries of the Company is a lessee, tenant, subtenant or other occupant, mortgages, obligations, liens and other encumbrances incurred, created, assumed or permitted to exist and arising by, through or under a landlord or sublandlord of such leased real property encumbering such landlord's or sublandlord's interest in such leased real property;

(i) any bankers' Security Interests in respect of deposit accounts, statutory landlords' Security Interests and deposits to secure bids, contracts, leases, and other similar obligations (provided such Security Interests do not secure obligations constituting Indebtedness and are incurred in the ordinary course of business of the

Group), direct debit arrangements, any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances and judgment Security Interests not giving rise to a Potential Event of Default or an Event of Default so long as such Security Interest is adequately bonded and any appropriate legal proceedings that may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(j) Security Interests securing Indebtedness permitted to be incurred under Condition 4.2 to finance or refinance the construction, purchase or lease of, or repairs, improvements or additions to, property of such Person; *provided*, *however*, that the Security Interest may not extend to any other property (other than property related to the property being financed) owned by such Person or any of its Subsidiaries at the time the Security Interest is incurred, and the Indebtedness (other than any interest thereon) secured by the Security Interest may not be incurred more than 180 days after the later of the refinancing, acquisition, lease, completion of construction, repair, improvement, addition or commencement of full operation of the property subject to the Security Interest;

(k) Security Interests on property at the time such Person or any of its Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into the Company or any Subsidiary of the Company; *provided*, *however*, that such Security Interests are not created, incurred or assumed in connection with, or in contemplation of, such acquisition and provided further, that the Security Interests may not extend to any other property owned by such Person or any of its Subsidiaries (other than assets and property affixed or appurtenant thereto);

(l) Security Interests securing Indebtedness or other obligations of either the Company or a Subsidiary of the Company in favour of either the Company or a Subsidiary of the Company;

(m) Security Interests securing Hedging Obligations so long as such Hedging Obligations are permitted to be incurred under these Conditions and the related Indebtedness is, and is permitted to be in accordance with these Conditions, secured by a Security Interest on the same property securing such Hedging Obligation and such Hedging Obligations are entered into in the ordinary course of business of the Group and are not speculative;

(n) any title transfer or retention of title arrangement entered into by any member of the Group in the ordinary course of its trading activities;

(o) Security Interests to secure a Refinancing Indebtedness that was secured by a Security Interest permitted thereunder and that was incurred in accordance with these Conditions; *provided* that such Security Interests do not extend to or cover any property or assets of either the Company or any Subsidiary of the Company other than assets or property securing the Indebtedness so refinanced;

(p) deposits made by and escrow or similar arrangements to secure obligations or liabilities arising from agreements providing for indemnification, adjustment of purchase price, earn-out or other similar obligations, in each case incurred or assumed in connection with the disposition of any assets (to the extent such disposition of assets is permitted hereby);

(q) Security Interests on property or share capital of another Person at the time such other Person becomes a Subsidiary of the Company; *provided*, *however*, that such Security Interests are not created, incurred or assumed in connection with, or in contemplation of, such Person becoming a Subsidiary of the Company and provided further that the Security Interests may not extend to any other property owned by the Company or a Subsidiary of the Company (other than assets and property affixed or appurtenant thereto);

(r) any extension, renewal of or substitution for any Security Interest permitted by any of the preceding paragraphs, *provided*, *however*, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Security Interest; with respect to Security Interests incurred pursuant to this paragraph (r) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Security Interests have not been extended to any additional property or assets (other than proceeds of the property or assets in question); and

(s) any Security Interests (other than those contemplated above in paragraphs (a) to (r)) where the aggregate value of the assets or revenues subject to such Security Interests at any one time outstanding do not exceed 15 per cent. of Group Total Assets;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means an event which, with the lapse of time and/or the issue, making or giving of any notice or both, would constitute an Event of Default;

"**Purchase Money Indebtedness**" means Indebtedness (including Capital Lease Obligations) (i) consisting of the deferred purchase price of property, conditional sale obligations, obligations under any title retention agreement, other purchase money obligations and obligations in respect of Indebtedness, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed, and (ii) incurred to finance the acquisition by the Company or a Subsidiary of the Company of such asset, including construction, additions and improvements, in the ordinary course of business of the Group (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); *provided*, *however*, that (A) any Security Interest arising in connection with any such Indebtedness shall be limited to the specific asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached, (B) such Indebtedness is incurred within 180 days after such acquisition of such assets and (C) the aggregate principal amount of Purchase Money Indebtedness at any one time outstanding shall not exceed (x) the Fair Market Value of the acquired or constructed asset or improvement so financed or (y) in the case of an uncompleted constructed asset, the amount of the asset to be constructed, as determined on the date the contract for construction of such asset was entered into by the Company or a Subsidiary of the Company (including, in each case, any reasonable related fees and expenses incurred in connection with such acquisition, construction or development);

"**Rating Agencies**" means Fitch, Moody's and Standard & Poor's or, if any or all of Fitch, Moody's or Standard & Poor's shall not provide a publicly available rating on the Notes, an internationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer and the Guarantors with the prior written approval of the Trustee, which shall be substituted for Fitch, Moody's and/or Standard & Poor's, with respect to the Notes;

"**Refinance**" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "**Refinances**", "**Refinanced**" and "**Refinancing**" shall have correlative meanings;

"**Refinancing Indebtedness**" means Indebtedness that Refinances any Indebtedness of the Company or any Subsidiary of the Company existing on the Issue Date or incurred in compliance with these Conditions, including Indebtedness that Refinances Refinancing Indebtedness; *provided*, *however*, that:

(a) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced or earlier *provided* that the Stated Maturity is later than the Stated Maturity of the Notes;

(b) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced or shorter *provided* that the Average Life is greater than the Average Life of the Notes;

(c) such Refinancing Indebtedness has an aggregate principal amount (or if incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if incurred with original issue discount, the aggregate accreted value) then outstanding (plus all accrued interest and fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and

(d) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes and the Guarantees, such Refinancing Indebtedness is subordinated in right of payment to the Notes and the Guarantees at least to the same extent as the Indebtedness being Refinanced;

"**Relevant Jurisdiction**" means:

(a) in the case of payment by the Issuer, Ireland or any political subdivision or any authority thereof or therein having power to tax;

(b) in the case of payments by the Company, the Cayman Islands or any political subdivision or any authority thereof or therein having power to tax; or

(c) in the case of payments by the Guarantors other than the Company, the Russian Federation or any political subdivision or any authority thereof or therein having power to tax; or

(d) in any case except in relation to Condition 6.2, any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or any of the Guarantors becomes subject in respect of payments made by it of principal or interest on the Notes or under the Guarantees;

"**Restricted Business**" has the meaning given to it in Condition 4.10;

"**Security Interest**" means any mortgage, pledge, encumbrance, lien, charge or other security interest or other preferential agreement or agreement having a similar effect (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

"**Securities Act**" means the US Securities Act of 1933, as amended;

"**Standard & Poor's**" means Standard & Poor's Credit Market Services Europe Limited, any credit rating agency affiliate thereof or any successor to the rating agency business thereof;

"**Stated Maturity**" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred);

"**Stock Exchange**" means the Irish Stock Exchange Limited;

"**Subordinated Obligation**" means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter incurred) which is subordinate or junior in right of payment to the Notes or a guarantee of such Person, as the case may be, pursuant to a written agreement to that effect;

"**Subsidiary**" of any specified Person means any corporation, partnership, joint venture, association or other business or entity, whether existing on the Issue Date or thereafter organised or acquired:

(a) which is controlled directly or indirectly by such Person; and/or

(b) which is beneficially owned directly or indirectly for more than 50 per cent. of the issued share capital or similar right of ownership by such Person; and/or

(c) of which more than 50 per cent. of the total voting power of the voting stock is held by such Person and/or any Subsidiaries of such Person;

and which in each case is required under the Accounting Standards to be consolidated in the financial statements of such Person prepared in accordance with the Accounting Standards;

"**Taxes**" means any taxes, duties, assessments or government charges of whatever nature (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by a Relevant Jurisdiction or any tax authority thereof or therein and the term *Taxation* shall be construed accordingly;

"**US Dollar Equivalent**" means with respect to any monetary amount in a currency other than US dollars, at any time for determination thereof, the amount of US dollars obtained by converting such foreign currency involved in such computation into US dollars at the spot rate for the purchase of US dollars with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" or any replacement thereof on the date two Business Days prior to such determination; and

"**US GAAP**" means generally accepted accounting principles in the United States.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Global Notes

All Notes will be in fully registered form, without interest coupons attached. The Notes offered and sold to non-US Persons (as defined in Regulation S) outside the United States in reliance on Regulation S (the "**Unrestricted Notes**") will be evidenced on issue by, and represented by beneficial interests in the Unrestricted Global Note (the "**Unrestricted Global Notes**"). The Unrestricted Global Note will be in fully registered form, without interest coupons attached, and will be deposited on or about the closing date of the Offering with a common depositary for Euroclear Bank and Clearstream, Luxembourg, and registered in the name of a nominee for such common depositary in respect of interests held through Euroclear or Clearstream, Luxembourg. Beneficial interests in the Unrestricted Global Note may at all times be held only through Euroclear or Clearstream, Luxembourg. By acquisition of a beneficial interest in the Unrestricted Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a US Person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40-day distribution compliance period (as such term is defined in Rule 902 of Regulation S), it will transfer such interest only to a person whom the seller reasonably believes (a) to be a non-US person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to be a person who takes delivery in the form of an interest in a Restricted Global Note (if applicable). See "Transfer Restrictions, Clearing and Settlement."

The Notes offered and sold in reliance on Rule 144A (the "**Restricted Notes**") will be evidenced on issue by, and represented by beneficial interests in a Restricted Global Note (the "**Restricted Global Note**" and, together with the Unrestricted Global Note, the "**Global Notes**"). The Restricted Global Note will be in fully registered form, without interest coupons attached, and will be deposited on or about the closing date of the Offering with a custodian for, and registered in the name of Cede & Co., as nominee for, DTC. By acquisition of a beneficial interest in the Restricted Global Note, the purchaser thereof will be deemed to represent, among other things, that the purchaser is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Trust Deed. Beneficial interests in the Restricted Global Note may be held only through DTC.

Each Unrestricted Global Note will have an ISIN and a common code and each Restricted Global Note will have a CUSIP number, an ISIN and a common code.

Amendments to Conditions

The Global Notes contain provisions which apply to the Notes in respect of which the Global Notes are issued, some of which modify the effect of the "Terms and Conditions of the Notes" contained elsewhere in this Prospectus. Terms defined in the "Terms and Conditions of the Notes" section of this Prospectus have the same meanings as in the paragraphs below. The following is a summary of those provisions.

Meetings

The registered holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, any meeting of Noteholders, and in any such meeting as having one vote in respect of each Note for which the Global Notes may be exchanged.

Cancellation

Cancellation of any Note evidenced by a Global Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the appropriate Global Note.

Payment

Payments of principal and interest in respect of the Global Note shall be made to the person who appears at the relevant time on the register of Noteholders as holder of the Global Note against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying and Transfer Agent (or to or to the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose) which shall endorse such payment or cause such payment to be endorsed on the relevant schedule thereto (such endorsement being prima facie evidence that the payment in question has been made). Each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the

Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except December 25 and January 1. No person shall, however, be entitled to receive any payment on a Global Note falling due after the Exchange Date (as defined below) unless the exchange of the relevant Global Note for Definitive Note Certificates is improperly withheld or refused by or on behalf of the Issuer.

Transfers

Transfer of interests in the Notes which are represented by a Global Note shall be made in accordance with the rules and procedures of Euroclear, Clearstream, Luxembourg or DTC, as the case may be.

Notices

So long as any of the Notes are represented by the Unrestricted Global Note, notices may be given by delivery of the relevant notice to Euroclear and Clearstream for communication by them to the relevant accountholders in substitution for notification as required by the "Terms and Conditions of the Notes", provided that such notice is also delivered to the Stock Exchange and given in accordance with the rules of the Stock Exchange. So long as any of the Notes are represented by the Restricted Global Note, notices may be given by delivery of the relevant notice to DTC for communication to the relevant accountholders in substitution for notification as required by the "Terms and Conditions of the Notes", provided that such notice is also delivered to the Stock Exchange and given in accordance with the rules of the Stock Exchange. Such notices shall be deemed to have been given on the second day after the day on which they were delivered to the relevant clearing system.

Whilst any Notes held by Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder to the Principal Paying and Transfer Agent through the relevant clearing system in such a manner as the Principal Paying and Transfer Agent and the relevant clearing system may approve for this purpose.

Prescription

Claims in respect of principal, interest and other amounts payable in respect of the Notes will become void unless they are presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest or any other amounts) from the due date for payment in respect thereof.

Trustee's Powers

In considering the interests of Noteholders in circumstances where the Global Notes are being held on behalf of DTC, Euroclear or Clearstream, Luxembourg or any alternative clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information provided to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of Global Notes; and (b) consider such interests as if such accountholders were the holders of such Global Notes.

Exchange of Interests in Global Notes for Definitive Note Certificates

Exchange of interests in Notes represented by the Restricted Global Note, in whole but not in part, for Restricted Notes represented by individual Notes in definitive form (the "**Restricted Definitive Note Certificates**") will not be permitted unless DTC or a successor depositary notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility or cessation on the part of such depositary. Exchange of interests in Notes represented by the Unrestricted Global Note, in whole but not in part, for Unrestricted Notes represented by individual Notes in definitive form (the "**Unrestricted Definitive Note Certificates**" and, together with the Restricted Definitive Note Certificates, the "**Definitive Note Certificates**") will not be permitted unless Euroclear or Clearstream, Luxembourg, is closed for business for a continuous period of 14 days (other than by reason of legal holidays), or announces an intention permanently to cease business or does in fact do so. Exchange of interests in a Global Note, in whole or in part, for a Definitive Note Certificate may be made on or after the Exchange Date by the surrender by the holder of the Global Note to the Registrar or the Transfer Agent. "**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or relevant Transfer Agent is located. The Registrar will not register the exchange of interest in a Global Note for a Definitive Note Certificate during the period of 15 calendar days ending on the due date for any payment or principal or interest in respect of the Notes.

Legends

The holder of a Definitive Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Restricted Definitive Note Certificate bearing the legend referred to under "Transfer Restrictions, Clearing and Settlement" or upon specific request for removal of the legend on a Restricted Definitive Note Certificate, the Issuer will deliver only Restricted Definitive Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Registrar a fully completed, signed certificate substantially to the effect that the transfer is being made in compliance with the provisions of Regulation S.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their tax advisors as to the consequences of a purchase, ownership and disposition of any Notes in light of their particular circumstances, including, but not limited to, the consequences of receipt of interest and of sale or redemption of the Notes. This summary is based upon the laws as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Irish Taxation

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts, etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisors on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.) is required to be withheld from payments of Irish source interest which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

(a) the Notes are Quoted Eurobonds, i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognized stock exchange (such as the Irish, London or Luxembourg Stock Exchanges) and which carry a right to interest; and

(b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:

(i) the Notes are held in a clearing system recognized by the Irish Revenue Commissioners (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognized); or

(ii) the Noteholder is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and

(c) one of the following conditions is satisfied:

(i) the Noteholder is resident for tax purposes in Ireland; or

(ii) the Noteholder is a pension fund, government body or other person (other than a person described in paragraph (c)(iv) below), who is resident in a Relevant Territory (as defined below) and who, under the laws of that territory is exempted from tax that generally applies to profits, income or gains in that territory; or

(iii) the Noteholder is subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or

(iv) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:

i. from whom the Issuer has acquired assets;

ii. to whom the Issuer has made loans or advances; or

iii. with whom the Issuer has entered into a Swap Agreement,

where the aggregate value of such assets, loans, advances or Swap Agreements represents not less than 75 per cent. of the assets of the Issuer, or

(v) the Issuer is not aware at the time of the issue of any Notes that any Noteholder of those Notes is (i) a person of the type described in (c)(iv) above AND (ii) is not subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a Relevant Territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory,

where for these purposes, the term

"**Relevant Territory**" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

"**Swap Agreement**" means any agreement, arrangement or understanding that:

(i) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof; and

(ii) transfers to a person who is a party to the agreement, arrangement or undertaking, or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in the asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the Irish Stock Exchange are held in a clearing system recognized by the Irish Revenue Commissioners (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognized), and one of the conditions set out in paragraph (c) above is met, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for, or on account of, Irish income tax. If the Notes continue to be quoted but cease to be held in a recognized clearing system, interest on the Notes may be paid without any withholding or deduction for, or on account of, Irish income tax provided that such payment is made through a Paying Agent outside Ireland, and one of the conditions set out in paragraph (c) above is met.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any Note, where such interest is collected or realized by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA, the recipient is not resident in Ireland and is resident in a Relevant Territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its business are exempt from income tax provided the recipient is not resident in Ireland and is a company which is either resident in a Relevant Territory which imposes a tax that generally applies to interest receivable in that Relevant Territory by companies from sources outside that Relevant Territory or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which is not yet in force but which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a Relevant Territory. Finance Act 2012 extends the foregoing exemption to companies which are under the control, whether directly or indirectly, of person(s) who by virtue of the law of a Relevant Territory are resident for the purpose of tax in a Relevant Territory and are not under the control of person(s) who are not so resident, and to 75% subsidiary companies of a company or companies the principal class of shares in which is substantially and regularly traded on a recognized stock exchange. For these purposes, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 33 per cent. if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

EU Directive on Taxation of Savings Income

Ireland has implemented the EC Council Directive 2003/48/EC on the taxation of savings income into national law. Accordingly, any Irish paying agent making an interest payment on behalf of the Issuer to an individual or certain residual entities resident in another Member State of the European Union or certain associated and dependent territories of a Member State will have to provide details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address) to the Irish Revenue Commissioners who in turn are obliged to provide such information to the competent authorities of the state or territory of residence of the individual or residual entity concerned. The Issuer shall be entitled to require Noteholders to provide any information regarding their tax status, identity or residency in order to satisfy the disclosure requirements in Directive 2003/48/EC and Noteholders will be deemed by their subscription for Notes to have authorized the automatic disclosure of such information by the Issuer or any other person to the relevant tax authorities.

Cayman Islands Taxation

The following is a discussion of certain Cayman Islands tax considerations relevant to an investment in the Notes and payments pursuant to the Guarantees. The discussion is a general summary only of present Cayman Islands law, which is subject to prospective and retroactive change. It is not intended to be and should not be construed as being legal or tax advice, does not consider any investor´s particular circumstances, and does not consider tax considerations other than those arising under Cayman Islands law. Prospective investors should consult their own tax advisors with respect to their particular circumstances and the effects of state, local or foreign laws, including Cayman Islands tax law, to which they may be subject to determine the special tax consequences of the receipt, ownership and sale or other disposition of a Note or the special tax consequences that may arise from the existence of the Guarantees.

Under existing Cayman Islands laws:

(i) payments of interest, principal and other amounts on the Notes and payments pursuant to the Guarantees will not be subject to taxation in the Cayman Islands and no Cayman Islands withholding taxes will be imposed on the payment of interest, principal or other amounts on the Notes or on any payments pursuant to the Guarantees, nor will gains derived from the disposal of the Notes 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;

(ii) no Cayman Islands stamp duty is payable in respect of the issue of the Notes although such stamp duty may be payable if Notes are executed in or brought into the Cayman Islands;

(iii) certificates evidencing the Notes in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty if brought into the Cayman Islands. However, an instrument transferring title to a Note if brought to or executed within the Cayman Islands, would be subject to Cayman Islands stamp duty; and

(iv) if any Guarantee is executed in or brought to the Cayman Islands, Cayman Island stamp duty would be payable. Such duty would be nominal.

EDC has been incorporated under the laws of the Cayman Islands as an exempted company and has obtained an undertaking, dated November 6, 2007, from the Governor in Cabinet of the Cayman Islands in the following form:

"THE TAX CONCESSIONS LAW
(1999 REVISION)
UNDERTAKING AS TO TAX CONCESSIONS

In accordance with Section 6 of The Tax Concessions Law (1999 Revision), the Governor in Cabinet undertakes with: **EURASIA DRILLING COMPANY LIMITED**., "the Company"

(a) that no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable

 (i) on or in respect of the shares debentures or other obligations of the Company; or

 (ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of TWENTY years from the 6th day of November 2007.

GOVERNOR IN CABINET"

Russian Taxation

General

The following is a general description of certain tax considerations relating to the Notes and does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their tax advisors as to the consequences of a purchase, ownership and disposition of any Notes in light of their particular circumstances, including, but not limited to, the consequences of receipt of interest and of sale or redemption of the Notes. This summary is based upon the laws as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

The provisions of the Russian Tax Code applicable to the Noteholders and transactions with respect to the Notes are uncertain and lack interpretive guidance. Both the substantive provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will, in practice, rest substantially with local tax inspectorates. In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may constitute the imposition of conditions, requirements or restrictions not stated by the law. Similarly, in the absence of binding precedents court rulings on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purpose of this clause "Non-Resident Noteholder" means: (i) an individual Noteholder who is actually present in Russia for a period of less than 183 days (including days of arrival in Russia and days of departure from Russia) in a period comprising 12 consecutive months. Presence in Russia for tax residency purposes is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education in any period comprising 12 consecutive months; and (ii) a legal entity or an organization incorporated pursuant to the laws of a country other than Russia which purchases, holds and/or disposes of the Notes other than through a permanent establishment in Russia. A "Resident Noteholder" means any Noteholder, whether an individual or a legal entity that does not qualify as a "Non-Resident Noteholder."

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realized by them in connection with the acquisition, ownership and/or disposal of the Notes (including interest received on the Notes). Resident Noteholders should consult their own tax advisors with regards to the effect that the acquisition, holding and/or disposal of the Notes may have on their tax position.

Non-Resident Noteholders

Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer. Non-Resident Noteholders also generally should not be subject to any Russian taxes in respect of any gains or other income realized on the Notes (including gains upon redemption, sale or other disposal of the Notes), provided that this income is not considered as being received from a source within Russia.

Taxation of Non-Resident Noteholders — Individuals

Acquisition of the Notes

Since Noteholders who are individuals and considered to be non-residents in Russia are taxable on Russian source income only, generally the acquisition of the Notes by a Non-Resident Noteholder who is an individual should not be considered as taxable income. However, if the transfer of legal title to the Notes takes place in Russia and the acquisition price is below fair market value (calculated under a specific procedure), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to material benefit (deemed income) received by individuals as a result of acquiring securities. In such a case deemed income may be subject to Russian personal income tax. The income to be taxed (subject to any available double tax treaty relief) will be calculated as the difference between the fair market price and the purchase price of the Notes.

Interest on the Notes

There could be no assurance that the interest income on the Notes after January 1, 2014 would not be subject to Russian tax at the source, unless the applicable tax rate can be reduced under the relevant double taxation treaty between Russia and the tax jurisdiction of the Non-Resident Noteholder. Potential purchasers of the Notes are advised to consult with their tax advisors regarding tax rates for the interest income on the Notes and the application of the relevant double taxation treaties.

Sale or other disposal of the Notes

In general, Non-Resident Noteholders who are individuals are subject to Russian tax on their income from a sale of the Notes which takes place in Russia. The income of an individual Non-Resident Noteholder realized from a sale, exchange or disposal of the Notes and received from a Russian source will generally be subject to personal income tax at the rate of 30% payable on the gain from such disposal (the gain generally being calculated as the gross proceeds from such disposal less any available cost deduction, including the original purchase price and deemed income taxed on acquisition and tax paid from such deemed income, if any) subject to any available double tax treaty relief.

Since the Russian Tax Code contains no definition of a sale taking place in Russia, there is an inherent risk that, given that a transaction is executed in Russia, and/or a party to the transaction is a Russian resident, the income from the sale of the Notes would be treated as received from a Russian source. In this case the tax payable from the sale of Notes and the payment procedures established for Resident Noteholders will apply (see "— Resident Noteholders" above).

If the disposal proceeds are paid by a tax agent (a Russian legal entity or a foreign legal entity carrying out activities in Russia through a permanent establishment which is a licensed broker, asset manager, management company or any other person that carries out operations under an agency agreement, a commission agreement or a brokerage contract), the applicable personal income tax should be withheld at source. If the tax is not withheld, a Non-Resident Noteholder, who is an individual, should file a tax return and pay tax in Russia on his/her own. The personal income tax rate (including tax withheld at source) may be reduced pursuant to a double taxation treaty between Russia and the tax jurisdiction of the Non-Resident Noteholder (see "— Tax Treaty Relief" below).

Payments under the Guarantee

In the event a payment under the Guarantee is made to a Non-Resident individual, such payment should be subject to a 30% withholding tax subject to any available double tax treaty relief. This tax may be reduced or eliminated under any applicable double tax treaty relief.

The Russian tax payment and refund procedures to be applied to the payments under the Guarantee to be received by Non-Resident Noteholders should generally be similar to the tax payment and refund procedures described above (as applicable) with respect to proceeds from disposal of the Notes to be received by either resident or Non-Resident Noteholders.

Non-Resident Noteholders should consult their own tax advisors with respect to the tax consequences of the receipt of payments under the Guarantee, including applicability of any available double tax treaty relief.

Taxation of Non-Resident Noteholders — Legal Entities

Acquisition of the Notes

Acquisition of the Notes by Non-Resident Noteholders that are legal entities and organizations should not constitute a taxable event under Russian law. Consequently, the acquisition of the Notes should not trigger any Russian tax implications for Non-Resident Noteholders that are legal entities and organizations.

Interest on the Notes

Pursuant to the Russian Tax Code, and also as amended by Law No. 97-FZ, interest income received on the Notes by Non-Resident Noteholders should not be subject to Russian tax with respect to the Notes issued prior to January 1, 2014. There could be no assurance that interest income on the Notes issued after January 1, 2014 will not be subject to Russian tax at the source, unless the applicable tax rate can be reduced under the relevant double taxation treaty between Russia and the tax jurisdiction of the Non-Resident Noteholder (see "— Tax Treaty Relief"). Potential purchasers of the Notes issued after January 1, 2014 are advised to consult their tax advisors regarding tax rates for income on Notes and the application of relevant double taxation treaties.

Sale or other disposal of the Notes

Income received by Non-Resident Noteholders from the sale or redemption of Notes should not be subject to Russian tax.

However, if a Non-Resident Noteholder sells the Notes issued after January 1, 2014 and receives sales or other disposal proceeds from a source within Russia, there could be no assurance that the portion of the sales or other disposal proceeds, if any, attributable to accrued interest would not be subject to Russian withholding tax, even if the sale or other disposal results in a loss. In this case, while some Non-Resident Noteholders that are legal entities might be eligible for an exemption from or a reduction in Russian withholding tax based on provisions of the applicable double tax treaties relating to interest income (subject to compliance with the treaty clearance formalities by these Noteholders), there is also no assurance that such exemption or reduction will be available to them in practice, whilst obtaining a refund of Russian income tax withheld at source can be extremely difficult, if not impossible. That said, it cannot be predicted with absolute certainty whether or not the Russian entities remitting sales or disposal proceeds to Non-Resident Noteholders that are legal entities will be willing to follow this approach in practice.

Redemption of the Notes

Non-Resident Noteholders that are legal entities generally should not be subject to any Russian taxes in respect of repayment of principal on the Notes received from the Issuer.

Payments under the Guarantee

New provisions of the Russian Tax Code (introduced by the Law No.97-FZ) exempt Russian organizations from the obligation to withhold income tax from any payments made to foreign legal entities without permanent establishment in Russia, including those made under guarantees provided by such Russian organizations on debt obligations and/or originating from "quoted bonds" issued prior to January 1, 2014, if such payments are specified in the terms of the "quoted bonds." Therefore, we believe that Guarantors will be exempt from the obligation to withhold Russian income tax with respect to any payments under the Guarantee to Non-Resident Noteholders that are legal entities under the Notes issued prior to January 1, 2014.

There can be no assurance that the Guarantors will not be obliged to withhold income tax in Russia with respect to the Notes issued after January 1, 2014 unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty. Potential purchasers of the Notes issued after January 1, 2014 are advised to consult their tax advisors regarding tax rates for income on the Notes and the application of relevant double taxation treaties.

Tax Treaty Relief

Where proceeds from the disposal of the Notes are received from a Russian source, in order for the Non-Resident Noteholders, whether an individual, legal entity or organization, provided it is the beneficial recipient, to receive the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed.

Currently a Non-Resident Noteholder that is a legal entity will need to provide the payer of income which is regarded a tax agent with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. However, the payer of income in practice may request additional documents confirming the entitlement and eligibility of such Non-Resident Noteholder to the benefits of the relevant double tax treaty in relation to income concerned. The certificate should confirm that the respective Non-Resident Noteholder is the tax resident of the relevant double tax treaty country (specifically for the purposes of the applicable double tax treaty). This certificate generally should be apostilled or legalized and needs to be renewed on an annual basis. A notarized Russian translation of the certificate will have to be provided to the person which is regarded a tax agent. Non-Resident Noteholders that are legal entities or organizations should consult their own tax advisors with respect to the possibilities to enjoy any double tax treaty relief and the relevant Russian procedures.

Under Russian domestic tax legislation in order to enjoy benefits of the respective double tax treaty a Non-Resident Noteholder who is an individual will have to provide the Russian tax authorities with (i) a tax residency certificate, issued by the competent authorities of his/her country of tax residence and (ii) a confirmation from the relevant foreign tax authorities on income received and the tax paid by that Non-Resident Noteholder outside Russia in relation to income with respect to which the respective double tax treaty benefits are claimed until 31 December of the year following the reporting year. Such requirements in practice may be imposed even if they directly contradict provisions of the applicable double tax treaty. In practice, these requirements may mean that a Non-Resident Noteholder who is an individual would not be able to rely on any double tax treaty until he or she pays the tax with respect to that income in the jurisdiction of his or her tax residency and may not be able to obtain the advance treaty relief in relation to income derived by them from Russian sources, as it is very unlikely that the supporting documentation required for the treaty relief purposes would be provided to the Russian tax authorities and, consequently, the approval from the latter could be obtained, before the receipt of income by a Non-Resident Noteholder occurs.

Non-Resident Noteholders should consult their own tax advisors with respect to possible tax treaty relief and procedures for obtaining such relief with respect to any Russian taxes imposed in respect of interest income on the Notes or any income received in connection with the acquisition, sale or other disposal of the Notes.

Refund of Tax Withheld

If Russian withholding tax applicable to income derived from Russian sources by a Non-Resident Noteholder that is a legal entity, for which double tax treaty relief is available, was withheld at source, a refund of the tax that was excessively withheld at source is possible by filing a claim with the Russian tax authorities within three years following the year in which the tax was withheld.

If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder who is an individual for whom double tax treaty relief is available was withheld at source a refund of tax which was excessively withheld is possible by filing a claim with the Russian tax authorities within one year following the year in which the tax was withheld.

Although the Russian Tax Code arguably contains exhaustive list of documents and information which have to be provided by the Non-Resident Noteholder to the Russian tax authorities for the tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming the right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

In practice a Non-Resident Noteholder when seeking for a refund of Russian taxes excessively withheld at source may face similar difficulties as when trying to obtain advance tax relief under the applicable double tax treaties, as discussed above.

Obtaining a refund of Russian income taxes which were excessively withheld at source is likely therefore to be a time consuming process requiring many efforts and no assurance can be given that such refund will be granted to the Non-Resident Noteholders in practice.

The Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income taxes, which were excessively withheld at source.

United States Taxation

General

The following discussion summarizes certain US federal income tax consequences relevant to the acquisition, ownership, disposition and retirement of the Notes by a US Noteholder (as defined below), and does not purport to be a complete analysis of all potential tax considerations. This discussion only applies to Notes that are held as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "**Code**"), and that are purchased in the initial offering at the initial offering price, by US Noteholders. This discussion does not describe all of the US federal income tax consequences that may be relevant to US Noteholders in light of their particular circumstances or to US Noteholders subject to special treatment under US federal income tax law, such as financial institutions; tax-exempt organizations; insurance companies; real estate investment trusts; regulated investment companies; entities treated as partnerships for US federal income tax purposes; traders or dealers in securities; persons holding Notes as part of a straddle, hedge, conversion transaction or other integrated transaction; persons liable for the alternative minimum tax; or certain former citizens or residents of the United States. This summary also does not address tax consequences to US Noteholders whose "functional currency" is not the US dollar. Persons considering the purchase of Notes are urged to consult their tax advisors with regard to the application of the US federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction. Furthermore, this discussion does not describe the effect of the 3.8% US Medicare contribution tax applicable to the net investment income of certain US Noteholders, US federal estate and gift tax laws or the effect of any applicable foreign, state or local law.

This summary is based on the Code, Treasury regulations promulgated thereunder (the "**Treasury Regulations**"), administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change (possibly with retroactive effect) or differing interpretations which could affect the tax consequences described herein. The Issuer has not and will not seek any rulings or opinions from the Internal Revenue Service (the "**IRS**") with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the acquisition, ownership or disposition of the Notes or that any such position would not be sustained.

US Internal Revenue Service Circular 230 Disclosure

TO ENSURE COMPLIANCE WITH US TREASURY DEPARTMENT CIRCULAR 230, NOTEHOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY NOTEHOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON NOTEHOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) NOTEHOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

For purposes of this summary, a "**US Noteholder**" is a beneficial owner of Notes, who is for US federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation or other entity subject to tax as a corporation for US federal income tax purposes created or organized in or under the laws of the United States or any state thereof (including the District of Columbia);
- an estate the income of which is subject to US federal income taxation regardless of its source; or
- a trust (1) that has a valid election in effect to be treated as a US person for US federal income tax purposes, or (2) (a) the administration of which a US court can exercise primary supervision over and (b) all of the substantial decisions of which one or more US persons have the authority to control.

If a partnership (or other entity or arrangement treated as a partnership for US federal income tax purposes) holds Notes, the tax treatment of a partner will depend on the status of the partner and the activities of the partnership. A US Noteholder that is a partnership and partners in such partnership should consult their own tax advisors as to the tax consequences to them of the partnership acquiring, owning, disposing and retiring Notes.

Interest and Original Issue Discount

Payments of interest on a Note generally will be included in the income of a US Noteholder as taxable ordinary income from sources outside of the United States in accordance with the US Noteholder's method of accounting for United States federal income tax purposes.

If the Notes are treated as issued with original issue discount ("**OID**"), a US Noteholder, regardless of its accounting method, generally must include in ordinary income the daily portion of any OID on a Note for each day during each taxable year in which a Note is held, determined by using a constant yield-to maturity method that reflects compounding of interest. The total amount of OID on a Note will equal the excess of the Note's "stated redemption price at maturity" over its "issue price" unless such excess is de minimis (i.e., less than one-quarter of one percent of the stated redemption price at maturity multiplied by the number of complete years to maturity). The "stated redemption price at maturity" will equal the Note's face amount. The "issue price" of a Note will equal the first price at which a substantial amount of Notes are sold for money, excluding sales to underwriters, placement agents or wholesalers. The amount of such inclusions will generally increase over time. Any OID will be ordinary income from sources outside of the United States.

Withholding and Payment of Additional Amounts

If any non-US taxes are withheld with respect to interest payments and OID on the Notes, a US Noteholder would be required to include in ordinary taxable income any additional amounts (as described under "Terms and Conditions of the Notes — Taxation") paid and any tax withheld from the interest payment and OID, notwithstanding that such withheld tax is not in fact received by the US Noteholder. A US Noteholder may be eligible, subject to a number of limitations, for a deduction or US foreign tax credit with respect to any non-US tax withheld. Non-US taxes withheld or imposed in respect of the Notes other than on a payment of interest may not be creditable or may be creditable only if the US Noteholder has foreign source income of the appropriate type. The rules relating to US foreign tax credits or deductions and the timing thereof are extremely complex and US Noteholders should consult their own tax advisors with regard to the availability of a US foreign tax credit or deduction and the application of the US foreign tax credit limitations to their particular situations.

Sale, Exchange, Retirement or Other Disposition

Upon the sale, exchange, retirement or other disposition of a Note, a US Noteholder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other disposition (other than accrued but unpaid interest which will be taxable as ordinary income to the extent not yet included in income by the US Noteholder) and the US Noteholder's adjusted tax basis in such Note. A US Noteholder's adjusted tax basis in a Note generally should equal the cost of the Note to such US Noteholder increased by any OID included in the US Noteholder's income with respect to that Note and reduced by any payments other than stated interest.

Any capital gain or loss recognized on the disposition of a Note will generally be long-term capital gain or loss if the US Noteholder has held the Note for more than one year. Long-term capital gain of a non-corporate US Noteholder is generally subject to reduced rates of taxation. The deductibility of capital losses is subject to limitations.

In most circumstances, gain or loss realized by a US Noteholder on the sale, exchange, retirement or other disposition of a Note generally will be treated as US source income or loss, as the case may be, for US foreign tax credit limitation purposes.

Possible Effect of Substitution of the Issuer

Provided that certain conditions are satisfied, another entity may be substituted, without the consent of the Noteholders, as the principal obligor in respect of the Notes. Depending on the circumstances, such substitution could be treated as a deemed taxable exchange to a US Noteholder of the Notes for newly issued notes, which could be considered, for US federal income tax purposes, to be issued with original issue discount. US Noteholders should consult their tax advisors regarding the consequences to them of such a substitution.

US Foreign Account Tax Compliance Withholding

In the event that the terms of the Notes are materially modified or another entity is substituted as the principal obligor in respect of the Notes, it is possible that the payments on the Notes may be subject to US withholding tax at a rate of 30% pursuant to the provisions of recently enacted legislation ("**FATCA**") or a similar law implementing an intergovernmental approach to FATCA. This withholding tax may apply if the new obligor is a US person or, alternatively, if (i) the Issuer, a Guarantor or other paying agent is considered to be a "foreign financial institution" ("**FFI**") (as defined in FATCA) and certain other factors are present, (ii) the terms of the Notes are materially modified after the date that is six months after finalization of final regulations (the "**grandfather date**"), which would occur if there is a substitution of the obligor after the grandfather date, and (iii) the payments are made to or through a non-compliant FFI. Final regulations address some aspects of FATCA but do not address the scope of the FATCA withholding tax in all of the circumstances described above. Thus, the possible application of FATCA to amounts paid with respect to the Notes is not clear. If an amount in respect of FATCA withholding tax were withheld from interest, principal or other payments on the Notes, neither the Issuer nor the Guarantors nor any paying agent nor any other person would be required to pay additional amounts as a result of the withholding of such tax. Noteholders should consult their tax advisors on how FATCA may affect the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Directive**"), member states are required to provide to the tax authorities of other member states details of payments of interest or other similar income paid by a person within its jurisdiction to an individual (or certain other types of person) established in that other member state. However, Luxembourg and Austria are instead required to operate a withholding system for a transitional period in relation to such payments made by paying agents established in those countries unless, during such period, they elect to do otherwise. The transitional period will end after agreement on exchange of information is reached between the European Union and certain non-European Union states. A number of non-EU countries and territories have agreed to adopt similar measures.

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above. The attention of Noteholders is drawn to Condition 8.1 of the Terms and Conditions of the Notes.

CERTAIN ERISA CONSIDERATIONS

ERISA imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under "Risk Factors" and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the Notes.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans and accounts that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts and entities whose underlying assets include the assets of such plans and accounts (together with ERISA Plans, "**Plans**")) and certain persons (referred to as "parties in interest" under ERISA or "disqualified persons" under the Code) having certain relationships to such Plans unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code. Other provisions of US federal, state or local law or non-US law may impose restrictions that are similar to those imposed by section 406 of ERISA and section 4975 of the Code.

Regulations promulgated by the United States Department of Labor at 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA (the "**Plan Asset Regulation**"), describe what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA and Section 4975 of the Code, including the fiduciary responsibility and prohibited transaction provisions of Title I of ERISA and Section 4975 of the Code. Under the Plan Asset Regulation, the purchase with assets of a Plan of equity interests in the Issuer could, in certain circumstances, cause the assets of the Issuer to be deemed assets of the investing Plan which, in turn, would subject the Issuer and its assets to the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Code. The Plan Asset Regulation defines an equity interest as "any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features." Although there is no guidance under ERISA on how this definition applies generally or in particular, to a security issued by a special purpose entity such as the Issuer, because the Notes (a) are expected to be treated as indebtedness under local law, and (b) should not be deemed to have any "substantial equity features," purchases of the Notes should not be treated as equity investments and, therefore, the assets of the Issuer should not be deemed to be assets of the investing Plans. These conclusions are based, in part, upon the traditional debt features of the Notes, including the reasonable expectation of purchasers of the Notes that the Notes will be repaid when due, as well as the absence of conversion rights, warrants and other typical equity features. It should be noted, however, that the debt treatment of the Notes for ERISA purposes could change subsequent to their issuance (i.e., they could be treated as equity) if, for instance, the Issuer incurs significant losses.

Whether or not the underlying assets of the Issuer are deemed to include "plan assets," as described above, prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes are acquired by a Plan with respect to which the Issuer, the Guarantors, the Joint Lead Managers, the Trustee or any of their respective affiliates are a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Notes and the circumstances under which such decision is made, including the statutory exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to transactions with non-fiduciary service providers where the Plan pays no more than and receives no less than adequate consideration), Prohibited Transaction Class Exemption ("**PTCE**") 84-14 (relating to transactions effected by a "**qualified professional asset manager**"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by insurance company general accounts) or PTCE 96-23 (relating to transactions directed by an in-house asset manager). There can be no assurance that any of the foregoing exemptions, or any other exemption will be available with respect to any particular transaction involving the Notes, or that, if an exemption is available, it will cover all aspects of any particular transaction.

By its purchase of any Notes (or any interest in a Note), the purchaser (whether in the case of the initial purchase or in the case of a subsequent transfer) thereof will be deemed to have represented and agreed that (1) either (i) it is not and for so long as it holds a Note (or any interest in a Note) will not be (and is not acquiring the Notes or any interests therein directly or indirectly with the assets of a person who is or while the Notes or interests therein are held will be) a Plan or a governmental or other employee benefit plan which is subject to any US federal, state or local law, or non-US law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (ii) its purchase and holding of the Notes (or any interest therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, any such substantially similar US federal, State or local law, or non-US law); and (2) it will not sell or otherwise transfer such Notes (or any interests therein) otherwise than to a purchaser or transferee that is deemed to represent and agree with respect to its purchase and holding of such Notes (or any interests therein) to the same effect as the purchaser's representation and agreement set forth in this sentence. Any purported purchase of a Note (or an interest therein) that does not comply with the foregoing shall be null and void ab initio.

The foregoing discussion is general in nature and not intended to be all inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any Notes (or any interests therein) should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA. Likewise, potential purchasers or subsequent transferees who are acting on behalf of governmental or other employee benefit plans are subject to other US federal, state or local laws or non-US law that impose restrictions that are similar to those imposed by Section 406 of ERISA and section 4975 of the Code should consult their advisors regarding the applicability of such laws.

The sale of Notes (or any interests therein) to a Plan is in no respect a representation by the Joint Lead Managers that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

SUBSCRIPTION AND SALE

Pursuant to a Subscription Agreement dated April 16, 2013, Goldman Sachs International, Merrill Lynch International and SIB (Cyprus) Limited have been appointed as Joint Lead Managers in connection with the Offering. The Joint Lead Managers have, in the Subscription Agreement, severally and not jointly, nor jointly and severally, agreed with the Issuer and the Guarantors, subject to the satisfaction of certain conditions, to subscribe for the Notes at 100% of their principal amount in the following amounts:

Joint Bookrunners	Principal Amount of Notes (US$)
Goldman Sachs International.	200,000,000
Merrill Lynch International	200,000,000
SIB (Cyprus) Limited.	200,000,000
Total	**600,000,000**

The Issuer (failing whom the Guarantors) has agreed to pay to the Joint Lead Managers a combined management, underwriting and selling commission (which shall be an agreed percentage of the aggregate principal amount of the notes) in consideration of their obligations undertaken in the Subscription Agreement. In addition, the Issuer (failing whom the Guarantors) has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer and the Guarantors have in the Subscription Agreement agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Notes, including liabilities under the Securities Act.

The Joint Lead Managers and their respective affiliates may have performed various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders and the Guarantors) and for which they may receive customary fees and expenses. Each of the Joint Lead Managers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer and the Group in the ordinary course of their respective businesses.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Guarantors or their affiliates. Certain of the Joint Lead Managers or their affiliates may have a lending relationship with the Issuer or the Guarantors and routinely hedge their credit exposure to the Issuer or the Guarantors consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

No Securities Commission Approval

The Notes have not been 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, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offering of the Notes or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

United States

The Notes and the Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has severally and not jointly represented in the Subscription Agreement that it has not offered and sold the Notes and the Guarantees and agrees that it will not offer and sell the Notes or the Guarantees (i) as part of their distribution at any time and (ii) otherwise until

40 days after the later of the commencement of the Offering and the Closing Date (the "**distribution compliance period**") except in accordance with Rule 903 or 904 of Regulation S or Rule 144A as set forth below. Accordingly, each Joint Lead Manager has represented that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes and the Guarantees and it has complied and will comply with the Offering restrictions of Regulation S. Terms used in this paragraph have the meanings given to them by the Regulations.

Each Joint Lead Manager has agreed in the Subscription Agreement that, at or prior to confirmation of sale of the Notes and the Guarantees (other than a sale pursuant to Rule 144A), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Notes and the Guarantees from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Notes and the Guarantees covered hereby have not been registered under the US Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered and sold within the United States or to, or for the account or benefit of, US persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S under the Securities Act."

Each Joint Lead Manager has also severally and not jointly nor jointly and severally represented and agreed in the Subscription Agreement that neither it nor any of its affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act ("**Regulation D**")), nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with any offer and sale of the Notes and the Guarantees in the United States. Each Joint Lead Manager severally and not jointly, nor jointly and severally, has further represented that it has not entered and agreed that it will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Notes and the Guarantees, except with its affiliates or with the prior written consent of the Issuer and the Company.

The Subscription Agreement provides that the Joint Lead Manager may directly or through their respective US broker-dealer affiliates arrange for the offer and resale of the Notes and the Guarantees in the United States only to qualified institutional buyers in accordance with Rule 144A.

United Kingdom

Each of the Joint Lead Managers has severally and not jointly, nor jointly and severally, represented and agreed in the Subscription Agreement that:

(a) 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 Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each Joint Lead Manager has severally and not jointly, nor jointly and severally, acknowledged in the Subscription Agreement that (i) no Russian prospectus has been produced and registered or is intended to be produced and registered with respect to the Notes and the Notes have not been and are not intended to be registered in the Russian Federation; and (ii) the Notes are not admitted to placing and public circulation in the Russian Federation (in terms of the applicable Russian securities laws). Consequently, each of the Joint Lead Managers has severally and not jointly nor jointly and severally represented, warranted and agreed in the Subscription Agreement that it and its affiliates have not offered or sold or otherwise transferred, and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter, any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Ireland

Each of the Joint Lead Managers has, severally and not jointly, nor jointly and severally, acknowledged in the Subscription Agreement that:

(a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) as amended, including, without limitation, Regulations 7 and 152 thereof or any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;

(b) it will not underwrite the issue of, or place, any Notes, otherwise than in conformity with the provisions of the Companies Acts 1963 – 2012, the Central Bank Acts 1942 – 2011 and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;

(c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of any Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended, and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank of Ireland; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of any Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005, as amended, and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank of Ireland.

TRANSFER RESTRICTIONS, CLEARING AND SETTLEMENT

The following information relates to the transfer of the Notes. Terms defined in the section of this Prospectus entitled "Terms and Conditions of the Notes" have the same meanings in the paragraphs below.

Transfer Restrictions

Restricted Notes

Each purchaser of Restricted Notes, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acquiring such Notes for its own account, or for the account of one or more QIBs and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.
2. It (a) is not a broker-dealer that owns and invests on a discretionary basis less than US$25 million in securities of unaffiliated issuers; (b) is not a participant-directed employee plan, such as a 401(k) plan, as referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan; (c) is acquiring the Notes for its own account or for the account of a QIB; (d) was not formed for the purpose of investing in the Issuer; (e) will hold and transfer at least US$200,000 in principal amount of the Notes at any time; (f) will provide notice of the transfer restrictions described below to any subsequent transferees; and (g) acknowledges that the Issuer may receive a list of participants' holding positions in the Notes from one or more book-entry depositories.
3. It understands that the Issuer has the power to compel any owner of Restricted Notes that is a US person and is not a QIB to sell its interest in the Restricted Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honor the transfer of a Restricted Note to a US person who is not a QIB.
4. The Notes and the Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) pursuant to a registration statement that has been declared effective under the Securities Act; (b) in reliance on Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs; (c) to a non US person (as defined in Regulation S) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; (d) pursuant to any other available exemption from the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States.
5. The Notes offered and sold hereby in the manner set forth in paragraph (1) are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the Securities Act and no representation is made as to the availability of the exemption provided by Rule 144 for the resale of the Notes;
6. The purchaser of the Notes will be deemed to represent, warrant and agree that (1) either (i) it is not and for so long as it holds a Note (or any interest therein) will not be (and is not acquiring the Notes or any interests therein directly or indirectly with the assets of a person who is or while the Notes or interests therein are held will be) (a) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (b) a "plan" as defined in and subject to the Section 4975 of Code, (c) an entity whose underlying assets include, or are deemed to include, the assets of any such employee benefit plan subject to Title I of ERISA or other plan subject to Section 4975 of the Code, or (d) a governmental or other employee benefit plan which is subject to any US federal, state or local law or non US law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (ii) its purchase and holding of the Notes (or any interests therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, any such substantially similar US federal, state or local law or non US law) and (2) it will not sell or otherwise transfer such Notes (or any interests therein) otherwise than to a purchaser or transferee that is deemed to represent and agree with respect to its purchase and holding of such Notes (or any interests therein) to the same effect as the purchaser's representation and agreement set forth in this sentence. Any purported purchase of a Note (or an interest therein) that does not comply with the foregoing shall be null and void *ab initio*.

7. The Restricted Notes, unless the Issuer determines otherwise in compliance with applicable law, will bear a legend substantially to the following effect:

   THIS NOTE AND THE GUARANTEE IN RESPECT HEREOF HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**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**") THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) TO A NON US PERSON (AS DEFINED IN REGULATION S) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THE NOTES.

   EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) EITHER (i) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN WILL NOT BE (AND IS NOT ACQUIRING THIS NOTE OR ANY INTEREST HEREIN DIRECTLY OR INDIRECTLY WITH THE ASSETS OF A PERSON WHO IS OR WHILE THIS NOTE OR ANY INTEREST HEREIN IS HELD WILL BE) AN EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), A PLAN SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE DEEMED TO INCLUDE, "PLAN ASSETS" OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN BY REASON OF ANY SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THAT ENTITY (EACH OF THE FOREGOING, A "**PLAN**") OR A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO ANY US FEDERAL, STATE OR LOCAL LAW OR NON-US LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (AN "**ALTERNATIVE PLAN**"); OR (ii) ITS PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF AN ALTERNATIVE PLAN, ANY SUCH SUBSTANTIALLY SIMILAR US FEDERAL, STATE OR LOCAL LAW, OR NON-US LAW) AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN OTHERWISE THAN TO A PURCHASER OR TRANSFEREE THAT IS DEEMED TO REPRESENT AND AGREE WITH RESPECT TO ITS PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN TO THE SAME EFFECT AS THE PURCHASER'S REPRESENTATION AND AGREEMENT SET FORTH IN THIS SENTENCE. ANY PURPORTED PURCHASE OF THIS NOTE (OR ANY INTEREST HEREIN) THAT DOES NOT COMPLY WITH THE FOREGOING SHALL BE NULL AND VOID *AB INITIO*.

8. It understands that the Issuer, the Guarantors, the Registrar and the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

9. It understands that the Restricted Notes will be evidenced by the Restricted Global Note. Before any interest in the Restricted Global Notes may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note, it will be required to provide the Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Unrestricted Notes

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and is a non-US Person (as defined in Regulation S) and is purchasing the Notes in an offshore transaction pursuant to Regulation S.

2. It understands that the Notes and the Guarantees have not been and will not be registered under the Securities Act and that the Issuer has not been and will not be registered under the Investment Company Act and that it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or the account of one or more QIBs or (b) to a non-US person (as defined in Regulation S) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

3. The purchaser of the Notes will be deemed to represent, warrant and agree that (1) either (i) it is not and for so long as it holds a Note (or any interest therein) will not be (and is not acquiring the Notes or any interests therein directly or indirectly with the assets of a person who is or while the Notes or interests therein are held will be) (a) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (b) a "plan" as defined in and subject to the Section 4975 of Code, (c) an entity whose underlying assets include, or are deemed to include the assets of any such employee benefit plan subject to Title I of ERISA or other plan subject to Section 4975 of the Code, or (d) a governmental or other employee benefit plan which is subject to any US federal, state or local law or non US law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (ii) its purchase and holding of the Notes (or any interests therein) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, any such substantially similar US federal, state or local law or non US law) and (2) it will not sell or otherwise transfer such Notes (or any interests therein) otherwise than to a purchaser or transferee that is deemed to represent and agree with respect to its purchase and holding of such Notes (or any interests therein) to the same effect as the purchaser's representation and agreement set forth in this sentence. Any purported purchase of a Note (or any interests therein) that does not comply with the foregoing shall be null and void *ab initio*.

4. It acknowledges that for the period until and including the 40th day after the commencement of the Offering, it will not make an offer or sale of Unrestricted Notes to, or for the account or benefit of, a US Person within the meaning of Regulation S.

5. It understands that such Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend substantially to the following effect:

   THIS NOTE AND THE GUARANTEE IN RESPECT HEREOF HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (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 WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS.

   EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) EITHER (i) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN WILL NOT BE (AND IS NOT ACQUIRING THIS NOTE OR ANY INTEREST HEREIN DIRECTLY OR INDIRECTLY WITH THE ASSETS OF A PERSON WHO IS OR WHILE THIS NOTE OR ANY INTEREST HEREIN IS HELD WILL BE) AN EMPLOYEE BENEFIT PLAN SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), A PLAN SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE DEEMED TO INCLUDE, "PLAN ASSETS" OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN BY REASON OF SUCH EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN THAT ENTITY (EACH OF THE FOREGOING, A "**PLAN**") OR A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO ANY US FEDERAL, STATE OR LOCAL LAW OR NON-US LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975

OF THE CODE (AN “**ALTERNATIVE PLAN**”); OR (ii) ITS PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF AN ALTERNATIVE PLAN, ANY SUCH SUBSTANTIALLY SIMILAR US FEDERAL, STATE OR LOCAL LAW, OR NON-US LAW) AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN OTHERWISE THAN TO A PURCHASER OR TRANSFEREE THAT IS DEEMED TO REPRESENT AND AGREE WITH RESPECT TO ITS PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN TO THE SAME EFFECT AS THE PURCHASER’S REPRESENTATION AND AGREEMENT SET FORTH IN THIS SENTENCE. ANY PURPORTED PURCHASE OF THIS NOTE (OR ANY INTEREST HEREIN) THAT DOES NOT COMPLY WITH THE FOREGOING SHALL BE NULL AND VOID *AB INITIO*.

6. It understands that the Issuer, the Guarantors, the Registrar, the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

7. It understands that the Notes offered in reliance on Regulation S will be represented by the Unrestricted Global Note. Before any interest in the Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Restricted Global Note, it will be required to provide the Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Book-Entry Procedures for the Global Notes

Custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See “— Book-Entry Ownership” and “— Settlement and Transfer of Notes.” Investors may hold their interests in the Global Notes directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**” and, together with Direct Participants, “**Participants**”) through organizations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg, is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg, also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a “banking organization” under the laws of the State of New York, a member of the US 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 was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerized book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates.

Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Restricted Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organizations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Restricted Global Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "Summary of Provisions Relating to the Notes while in Global Form — Exchange of Interests in Global Notes for Definitive Note Certificates", DTC will surrender the Restricted Global Note for exchange for Restricted Definitive Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Unrestricted Global Note representing the Unrestricted Notes will have an ISIN, a Common Code and a CUSIP number and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-2967, Luxembourg.

DTC

The Restricted Global Note representing the Restricted Notes will have an ISIN, a Common Code and a CUSIP number and will be deposited with a custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg as the holder of a Note evidenced by a Global Note must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note, and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Guarantors, the Trustee, the Joint Lead Managers or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg, or the nominee of their common depositary is the registered holder of a Global Note, DTC, Euroclear, Clearstream, Luxembourg, or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Agency Agreement and the Notes. Payments of principal, premium (if any), interest and additional amounts (if any) in respect of Global Notes will be made to DTC, Euroclear, Clearstream, Luxembourg, or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Guarantors, the Trustee, any Agent, the Joint Lead Managers or any affiliate of any of them or any person by whom any of them is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal, premium (if any) and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg, from the Principal Paying and Transfer Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg, customers in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC from the Principal Paying and Transfer Agent, all distributions of principal, premium (if any) and interest with respect to book entry interests in the Notes from the Principal Paying and Transfer Agent through DTC. Distribution in the United States will be subject to relevant United States tax laws and regulations.

Payments on the Notes will be paid to the holder shown on the Register on the close of business the business day before the due date for such payment so long as the Notes are represented by a Global Note, and on the close of business the Clearing System Business Day before the due date for such payment if the Notes are in the form of Definitive Note Certificates (the "**Record Date**").

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system, and its records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC, Euroclear and Clearstream, Luxembourg, can only act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes through DTC, Euroclear and Clearstream, Luxembourg, will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of (i) the nominee of the common depositary and (ii) Cede & Co. to reflect the amounts of Notes held through Euroclear, Clearstream, Luxembourg, and DTC, respectively. Beneficial ownership in the Notes will be held through financial institutions as direct and indirect participants in DTC, Euroclear and Clearstream, Luxembourg.

Beneficial interests in the Unrestricted Global Note and the Restricted Global Note will be in uncertificated book-entry form.

DTC actions with respect to the Notes

The Issuer will direct DTC to take the following steps in connection with the Notes:

- to cause (i) each physical DTC delivery order ticket delivered by DTC to purchasers to contain the 20-character security descriptors and (ii) each DTC delivery order ticket delivered by DTC to purchasers in electronic form to contain the "GRLS" indicators and the related user manual for participants, which will contain a description of relevant restrictions;

- to send, on or prior to the closing date of this Offering, an "Important Notice" to all DTC participants in connection with this Offering of the Notes. The Issuer may instruct DTC from time to time (but not more frequently than every six months) to reissue the "Important Notice";
- to include in all "confirms" of trades of the Notes in DTC, CUSIP numbers with a "fixed field" attached to the CUSIP number that has the "GRLS" markers; and
- to deliver to the Issuer from time to time a list of all DTC participants holding an interest in the Notes.

Euroclear actions with respect to the Notes

The Issuer will instruct Euroclear Bank SA/NV to take the following steps in connection with the Notes:

- to reference "144A" as part of the security name in the Euroclear securities database;
- in each daily securities balances report and daily transactions report to Euroclear participants holding positions in the Notes, to include "144A" in the securities name for the Notes; and
- to deliver to the Issuer from time to time, upon its request, a list of all Euroclear participants holding an interest in the Notes.

Clearstream, Luxembourg, actions with respect to the Notes

The Issuer will instruct Clearstream, Luxembourg, to take the following steps in connection with the Notes:

- to reference "144A" as part of the security name in the Clearstream, Luxembourg, securities database;
- in each daily portfolio report and daily settlement report to Clearstream, Luxembourg, participants holding positions in the Notes, to include "144A" in the securities name for the Notes; and
- to deliver to the Issuer from time to time, upon its request, a list of all Clearstream, Luxembourg, participants holding an interest in the Notes.

Bloomberg Screens, etc.

The Issuer will from time to time request all third-party vendors to include appropriate legends regarding Rule 144A restrictions on the Notes on screens maintained by such vendors. Without limiting the foregoing, the Joint Lead Managers will request that Bloomberg, L.P. include the following on each Bloomberg screen containing information about the securities as applicable:

- the bottom of the "Security Display" page describing the Notes should state: "Iss'd under 144A" and "GRLS";
- the "Security Display" page should have a flashing red indicator stating "Additional Note Pg";
- such indicator for the Notes should link to an "Additional Security Information" page, which should state that the Notes "are being offered in reliance on the exception from registration under Rule 144A of the Securities Act of 1933, as amended (the "**Securities Act**") to persons that are "qualified institutional buyers" as defined in Rule 144A under the Securities Act; and
- the "Disclaimer" pages for the Notes should state that the securities "have not been and will not be registered under the Securities Act of 1933, as amended."

CUSIP

Each "CUSIP" obtained for a Restricted Global Note will have an attached "fixed field" that contains "GRLS" and "144A" indicators.

Trading between Euroclear and Clearstream, Luxembourg, Accountholders

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg, to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg, will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg, and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement System.

Trading between DTC Seller and Euroclear or Clearstream, Luxembourg, Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the custodian will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Restricted Global Note and (ii) increase the amount of Notes registered in the name of a nominee of the common depositary and evidenced by such Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the ease may be, for credit to the relevant accountholder on the first business day following the settlement date. See above concerning the Record Date for payments of interest.

Trading between Euroclear or Clearstream, Luxembourg, Seller and DTC Purchaser

When book-entry interests in Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg, accountholder holding a beneficial interest in an Unrestricted Global Note to the account of a DTC participant wishing to purchase a beneficial interest in a Restricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg, accountholder must send to Euroclear or Clearstream, Luxembourg, delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg, and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg, accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg, will (i) transmit appropriate instructions to the custodian who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (ii) instruct the Registrar to (a) decrease the amount of Notes registered in the name of a nominee of the common depositary and evidenced by such Unrestricted Global Note and (b) increase the amount of Notes registered in the name of the Cede & Co. and evidenced by such Restricted Global Note. See above concerning the Record Date for payments of interest.

Although the foregoing sets out the procedures of DTC, Euroclear and Clearstream, Luxembourg, in order to facilitate the transfers of interests in the Notes among the participants of DTC, Euroclear and Clearstream, Luxembourg, none of DTC, Euroclear or Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Guarantors, the Trustee, any Agent, the Joint Lead Managers or any affiliate of any of them or any person by whom any of them is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg, or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

Pre-issue Trades Settlement

It is expected that delivery of the Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade the Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of the Notes may be affected by such local settlement practices, and purchasers of the Notes between the relevant date of pricing and the Closing Date should consult their own advisors.

LEGAL MATTERS

Certain legal matters in relation to the Offering will be passed upon for the Issuer and the Guarantors with respect to the laws of England and the United States by Skadden, Arps, Slate, Meagher & Flom (UK) LLP, and with respect to the laws of the Russian Federation by Skadden, Arps, Slate, Meagher & Flom LLP. Certain legal matter with respect to the laws of Ireland will be passed upon for the Issuer by Arthur Cox. Certain legal matters with respect to Cayman Islands law will be passed upon for the Company by Walkers Global. Certain legal matters in connection with the Offering will be passed upon for the Joint Lead Managers with respect to the laws of England, the United States and the Russian Federation by White & Case LLP. Certain legal matters in relation to the Offering will be passed upon for the Trustee with respect to the laws of England by White & Case LLP.

INDEPENDENT AUDITORS

The Consolidated Financial Statements of the Company as of and for the years ended December 31, 2012, 2011 and 2010 included in this Prospectus have been audited by ZAO KPMG, independent auditors, of 10 Presnenskaya Naberezhnaya, Moscow, Russia 123317, as stated in their report appearing herein. ZAO KPMG is a member of the Audit Chamber of Russia (*Auditorskaya Palata Rossii*).

GENERAL INFORMATION

1. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on the Main Securities Market through Arthur Cox Listing Services Limited. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Main Securities Market for the purposes of the Prospectus Directive.
2. It is expected that the listing of the Notes on the Official List of the Irish Stock Exchange and the admission of the Notes to trading on the Main Securities Market will take place on or about April 17, 2013, subject to the issuance of the Global Notes. Transactions will normally be effected for delivery on the third business day after the transaction.
3. The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg, and DTC. The common code of the Unrestricted Notes is 091860449 and the ISIN is XS0918604496. The common code of the Restricted Notes is 091869357, the CUSIP number is 26832KAA2 and the ISIN is US26832KAA25.
4. So long as any of the Notes are outstanding and the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will promptly furnish, for the benefit of the holders from time to time of Notes, upon request, to holders of Notes and prospective purchasers designated by any such holders, information required to be disclosed by subsection (d)(4) of Rule 144A (or any successor provision).
5. So long as any of the Notes are outstanding and the Guarantees are a "restricted security" within the meaning of Rule 144(a)(3) under the Securities Act, the Guarantors will promptly furnish, for the benefit of holders from time to time of the relevant Notes, upon request, to holders of Notes and prospective purchasers designated by any such holders, information required to be disclosed by subsection (d)(4) of Rule 144A (or any successor provision).
6. So long as any of the Notes are outstanding, copies of the following documents may be inspected at and are available free of charge in physical form at the registered office of the Issuer and the specified office of the Principal Paying and Transfer Agent in London during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
   - the certificate of incorporation of the Issuer and articles of association of the Issuer;
   - a copy of the charter or, as the case may be, articles of incorporation of each of the Guarantors (together with an English translation thereof, if applicable; any investor receiving an English translation acknowledges that such translation is provided solely for the benefit of the investor and that in the instance of any dispute, the original document will prevail. The Group affirms that any English translation provided will be correct and accurate in all material respects);
   - the Agency Agreement;
   - the Trust Deed, including the Guarantees and the forms of the Global Notes;
   - this Prospectus;
   - the Consolidated Financial Statements; and
   - the authorizations listed in paragraph 7 below.
7. The issuance of the Notes has been authorized by a decision of the board of directors of the Issuer dated April 15, 2013, and the Guarantees have been authorized by a decision of the Board of Directors of the Company dated April 3, 2013, a decision of the sole participant of BKE dated April 5, 2013 and a decision of the sole participant of SGC-Drilling dated April 3, 2013.
8. No consents, approvals, authorizations or orders of any regulatory authorities are required by the Issuer or the Guarantors under the laws of Ireland, the Cayman Islands or the Russian Federation for issuing the Notes or the giving of the Guarantees.
9. Since December 31, 2012, being the date of the last audited consolidated financial statements, there has been no material adverse change in the prospects of the Guarantors or the Group and there has been no significant change in the financial or trading position of the Guarantors or the Group.
10. Since March 7, 2013, the date of incorporation of the Issuer, there has been no significant change in the financial or trading position of the Issuer.

11. Save as disclosed under "Business — Litigation", there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantors are aware), during a period covering at least the previous 12 months, which may have, or have had in the recent past, significant effects on each of the Issuer's, the Guarantors', or the Group's financial position or profitability.

12. The Issuer and the Guarantors do not intend to provide post-issuance transaction information regarding the Notes or the Guarantees.

13. The total fees and expenses in relation to the admission to trading of the Notes are expected to be approximately €5,000.

14. Any reference to websites in this Prospectus is for information purposes only and such websites shall not form part of this Prospectus.

INDEX TO FINANCIAL STATEMENTS

EURASIA DRILLING COMPANY LIMITED

Consolidated Financial Statements

(prepared in accordance with US GAAP)

As of December 31, 2012, 2011 and 2010
and for each of the years in the three year period
ended December 31, 2012

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Auditors' Report

To the Board of Directors

Eurasia Drilling Company Limited

We have audited the accompanying consolidated financial statements of Eurasia Drilling Company Limited and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012, 2011 and 2010, and the consolidated statements of comprehensive income, stockholders' equity and cash flows for 2012, 2011 and 2010, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audits. We conducted our audits in accordance with Russian Federal Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eurasia Drilling Company Limited and its subsidiaries as of December 31, 2012, 2011 and 2010, and the results of their operations and their cash flows for 2012, 2011 and 2010 in accordance with U.S. generally accepted accounting principles.

Usov A.I.

Director, power of attorney dated October 1, 2010 No. 52/10

ZAO KPMG

March 29, 2013

Moscow, Russian Federation

Eurasia Drilling Company Limited

Consolidated Balance Sheets
As of December 31, 2012, 2011 and 2010
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	2012	2011 (adjusted)	2010 (adjusted)
Assets				
Current assets				
Cash and cash equivalents	3	305,333	509,781	629,466
Accounts receivable, net	4	528,813	378,523	252,749
Inventories		213,058	190,727	127,918
Taxes receivable	12	27,201	33,146	34,960
Deferred income tax assets	12	11,175	3,710	11,472
Other current assets	8	13,792	42,719	20,241
Total current assets		**1,099,372**	**1,158,606**	**1,076,806**
Property, plant and equipment	5	1,768,119	1,286,125	765,184
Long-term accounts receivable	6	256	2,181	6,838
Deferred income tax assets	12	2,156	2,833	1,422
Goodwill	7, 17	107,998	105,399	32,727
Other non-current assets	8	57,154	48,672	70,830
Total assets		**3,035,055**	**2,603,816**	**1,953,807**
Liabilities and stockholders' equity				
Current liabilities				
Accounts payable and accrued liabilities		465,256	407,410	258,706
Advances received		2,288	3,766	20,295
Current portion of long-term debt	10	257,860	175,217	117,550
Taxes payable	12	90,276	69,030	54,257
Deferred income tax liabilities	12	6,499	5,340	478
Total current liabilities		**822,179**	**660,763**	**451,286**
Long-term debt	11	442,013	578,117	286,367
Accrued pension liability	13	15,598	11,216	6,889
Deferred income tax liabilities	12	92,639	49,376	24,744
Total liabilities		**1,372,429**	**1,299,472**	**769,286**
Stockholders' equity	16			
Common stock		1,469	1,469	1,469
Treasury stock, at cost		(1,652)	(2,244)	(13,148)
Additional paid-in capital		684,398	680,198	691,535
Retained earnings		1,072,369	793,111	578,716
Accumulated other comprehensive loss		(93,958)	(168,190)	(74,051)
Total stockholders' equity		**1,662,626**	**1,304,344**	**1,184,521**
Total liabilities and stockholders' equity		**3,035,055**	**2,603,816**	**1,953,807**

W. Richard Anderson
CFO of Eurasia Drilling Company Limited

March 29, 2012

The accompanying notes are an integral part of these consolidated financial statements

Eurasia Drilling Company Limited

Consolidated Statements of Comprehensive Income
For the years ended December 31, 21012, 2011 and 2010
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	2012	2011 (adjusted)	2010 (adjusted)
Revenues				
Drilling and related services		3,222,830	2,734,444	1,808,905
Other sales and services		14,503	32,305	13,275
Total revenues		**3,237,333**	**2,766,749**	**1,822,180**
Cost of services, excluding depreciation and taxes	15	(2,151,336)	(1,906,256)	(1,204,333)
General and administrative expenses, excluding depreciation and taxes		(161,270)	(144,614)	(106,920)
Taxes other than income taxes		(134,733)	(119,181)	(72,547)
Depreciation		(249,987)	(213,492)	(144,241)
Gain (loss) on disposal of property, plant and equipment		4,786	(1,362)	6,344
Impairment loss	17	—	(1,296)	(7,096)
Income from operating activities		**544,793**	**380,548**	**293,387**
Interest expense		(53,661)	(52,342)	(15,125)
Interest income		12,094	11,485	7,993
Currency transaction gain (loss)		631	(11,054)	(7,355)
Gain on business exchange transaction	17	—	32,284	557
Other (expenses) income		(8)	6,495	(951)
Income before income taxes		**503,849**	**367,416**	**278,506**
Income tax expense	12	(121,840)	(84,045)	(71,680)
Net income		**382,009**	**283,371**	**206,826**
Basic earnings per share of common stock (US dollars)	16	2.60	1.93	1.44
Diluted earnings per share of common stock (US dollars)	16	2.59	1.93	1.44
Other comprehensive income:				
Foreign currency translation gain (loss)		76,010	(92,089)	(7,498)
Pension benefits:				
Prior service cost		(931)	(561)	(1,535)
Actuarial (loss) gain		(847)	(1,489)	464
Other comprehensive income (loss)		**74,232**	**(94,139)**	**(8,569)**
Comprehensive income		**456,241**	**189,232**	**198,257**

The accompanying notes are an integral part of these consolidated financial statements

Eurasia Drilling Company Limited

Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2012, 2011 and 2010
(All amounts in thousands of US dollars, unless otherwise noted)

	Common stock	Treasury stock, at cost	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income/ (loss), net of tax	Total Stock-holders' equity
Balances as of December 31, 2009 (adjusted)	**1,469**	**(58,332)**	**528,163**	**596,594**	**(65,482)**	**1,002,412**
Net income (adjusted)	—	—	—	206,826	—	**206,826**
Other comprehensive loss (adjusted)	—	—	—	—	(8,569)	**(8,569)**
Comprehensive income (adjusted)						**198,257**
Sale of common stock	—	54,956	162,548	—	—	**217,504**
Purchase of treasury stock	—	(13,148)	—	—	—	**(13,148)**
Incentive compensation plan	—	—	4,200	—	—	**4,200**
Exercise of incentive compensation plan	—	3,376	(3,376)	—	—	**—**
Dividends declared	—	—	—	(224,704)	—	**(224,704)**
Balances as of December 31, 2010 (adjusted)	**1,469**	**(13,148)**	**691,535**	**578,716**	**(74,051)**	**1,184,521**
Net income (adjusted)	—	—	—	283,371	—	**283,371**
Other comprehensive loss (adjusted)	—	—	—	—	(94,139)	**(94,139)**
Comprehensive income (adjusted)						**189,232**
Purchase of treasury stock	—	(5,114)	—	—	—	**(5,114)**
Disposal of treasury stock	—	481	—	—	—	**481**
Incentive compensation plan	—	—	4,200	—	—	**4,200**
Exercise of incentive compensation plan	—	15,537	(15,537)	—	—	**—**
Dividends declared	—	—	—	(68,976)	—	**(68,976)**
Balances as of December 31, 2011 (adjusted)	**1,469**	**(2,244)**	**680,198**	**793,111**	**(168,190)**	**1,304,344**
Net income	—	—	—	382,009		**382,009**
Other comprehensive income	—	—	—	—	74,232	**74,232**
Comprehensive income						**456,241**
Disposal of treasury stock	—	592	—	—	—	**592**
Incentive compensation plan	—	—	4,200	—	—	**4,200**
Dividends declared	—	—	—	(102,751)	—	**(102,751)**
Balances as of December 31, 2012	**1,469**	**(1,652)**	**684,398**	**1,072,369**	**(93,958)**	**1,662,626**

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, 2012, 2011 and 2010
(All amounts in thousands of US dollars, unless otherwise noted)

	Note	2012	2011 (adjusted)	2010 (adjusted)
Cash flows from operating activities				
Net income		**382,009**	**283,371**	**206,826**
Adjustments for non-cash items:				—
Depreciation		249,987	213,492	144,241
Accrued interest expense		—	2,586	2,893
Deferred income tax		34,307	27,747	8,635
(Gain) loss on disposal of property, plant and equipment		(4,786)	1,362	(6,344)
(Gain) loss on disposal of subsidiary		—	(32,284)	557
Impairment loss	17	—	1,296	7,096
Decrease in allowance for doubtful accounts receivable		(2,833)	(1,806)	(947)
Foreign currency exchange rate difference (unrealized)		1,546	8,097	3,862
Incentive plan		4,200	4,200	4,200
All other items—net		3,186	368	(651)
Changes in operating assets and liabilities:			—	—
Accounts receivable		(126,878)	(113,378)	(51,104)
Inventories		(10,527)	(51,191)	(18,941)
Taxes receivable and payable		29,300	26,671	1,846
Other current assets and liabilities		32,588	(31,157)	(4,792)
Accounts payable and accrued liabilities		2,000	103,319	42,015
Advances received		(1,644)	(16,964)	(16,839)
Net cash provided by operating activities		**592,455**	**425,729**	**322,553**
Cash flows from investing activities				
Purchases of property, plant and equipment		(616,499)	(417,873)	(224,970)
Change in restricted cash	8	(3,400)	17,919	(58,807)
Proceeds from sale of property, plant and equipment		11,121	14,034	8,190
Disposal of subsidiary, net of cash disposed	17	—	95,374	767
Loans issued		(20,637)	—	(7,238)
Loan principal collections		17,136	1,021	—
Acquisition of subsidiaries, net of cash acquired	17	—	(559,340)	(43,132)
Investment in associate		(5,643)	—	—
Net cash used in investing activities		**(617,922)**	**(848,865)**	**(325,190)**
Cash flows from financing activities				
Proceed from issuance of short-term debt		—	90,000	—
Principal repayments of short-term debt		—	(90,000)	—
Proceeds from issuance of long-term debt		25,729	465,649	255,193
Principal repayments of long-term debt		(153,893)	(67,808)	(40,037)
Repayment of capital lease obligations		—	—	(538)
Dividends paid		(68,976)	(45,387)	(212,786)
Proceeds from sale of treasury stock		—	—	217,504
Purchase of treasury stock		—	(5,114)	(13,148)
Net cash (used in) provided by financing activities		**(197,140)**	**347,340**	**206,188**
Effect of exchange rate changes on cash		18,159	(43,889)	(7,809)
Net (decrease) increase in cash and cash equivalents		**(204,448)**	**(119,685)**	**195,742**
Cash and cash equivalents at beginning of period		509,781	629,466	433,724
Cash and cash equivalents at end of period	3	**305,333**	**509,781**	**629,466**
Supplemental disclosures of cash flow information				
Interest paid		50,706	46,286	11,910
Income tax paid		92,294	55,394	57,145

The accompanying notes are an integral part of these consolidated financial statements

Eurasia Drilling Company Limited

Notes to Consolidated Financial Statements
(All amounts in thousands of US dollars, unless otherwise noted)

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 operating within the Russian Federation, Kazakhstan, Iraq and the Caspian Sea region.

Eurasia Drilling Company Limited was registered on November 25, 2002 under the Law of the 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 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 Burovaya Kompaniya Eurasia, was established in accordance with the decision of the Board of Directors of OAO LUKOIL on February 13, 1995 and registered by the resolution of the Head of Kogalym Administration No 216 on May 17, 1995. It was formed from the West Siberian drilling subdivisions of OAO LUKOIL.

As of December 31, 2012, 2011 and 2010 OOO Burovaya Kompaniya Eurasia had on-shore operating branches in Kogalym, Perm, Usinsk and Zhirnovsk (Volgograd Region) in the Russian Federation.

In 2007 the Group established a subsidiary in Kazakhstan, TOO BKE Kazakhstan Burenie, to provide on-shore drilling services.

In December 2006, the Group acquired a 100% interest in LUKOIL Shelf Limited and LUKOIL Overseas Orient which provide off-shore drilling services in the Caspian Sea to various oil and gas companies in the Russian Federation, Kazakhstan and Turkmenistan. In 2007 these companies were renamed EDC Shelf Limited and AstraOrient Limited, respectively. In 2007, the Company established a Russian subsidiary, OOO BKE Shelf, to operate its off-shore drilling services segment. All operations from EDC Shelf Limited were transferred to OOO BKE Shelf.

In December 2009, the Group acquired a 100% interest in OOO Kogalym Well Workover Division (OOO KWWD) and OOO Urai Well Workover Division (OOO UWWD) which provide well workover, well reconditioning and well servicing operations in West Siberia. In December 2011 these two companies were merged into one legal entity OOO KRS Eurasia.

In June 2010, the Group acquired a 100% interest in OOO Meridian which performs workover services in the Komi region (refer to Note 17).

In February 2011 the Group acquired a 100% interest in Caspian Sea Ventures International Limited (CSVI). The acquired company is the owner of a jack-up drilling rig operating in the Turkmen waters of the Caspian Sea (refer to Note 17).

In April 2011 the Group acquired a 100% interest in OOO Sibirskaya Geophisicheskaya Company (OOO SGC) and 100% in ZAO Samatlorsky KRS (ZAO SKRS). The acquired companies perform drilling and workover services in West Siberia (refer to Note 17).

In July 2012 the Group acquired rigs in Iraq and established a new company EDC Romfor to perform drilling and workover services in Kurdistan region.

The majority of the Group's revenues are currently derived from services provided to OAO LUKOIL and its affiliated entities (the "LUKOIL Group") and as such, the Group is economically dependent upon its contractual agreements with the LUKOIL Group (refer to note 21).

Business and economic environment

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, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, goodwill impairment assessment, accounts receivable, inventories, deferred income taxes, long-term debt, accrued pension liability and stock-based compensation 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 its subsidiaries, except for OOO Burovaya Kompaniya Eurasia, OOO KRS Eurasia, OOO Meridian, OOO SGC, OOO SKRS and TOO BKE Kazakhstan Burenie, is the US dollar. The functional currency of OOO Burovaya Kompaniya Eurasia, OOO KRS Eurasia, OOO Meridian, OOO SGC and OOO SKRS is the Russian ruble and the functional currency of TOO BKE Kazakhstan Burenie is the Kazakh Tenge because these are the currencies of the primary economic environments in which they operate and in which cash is generated and expended. The Group's reporting currency is the US dollar.

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 comprehensive 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/loss.

The closing exchange rate as of December 31, 2012, 2011 and 2010 was 30.3727, 32.1961 and 30.4769 Russian rubles to one US dollar, respectively.

The Russian ruble and other currencies of republics of the former Soviet Union are not readily convertible outside of their countries. Accordingly, the translation of amounts recorded in these currencies into US dollars should not be construed as a representation that such currency amounts have been, could be or will in the future be converted into US dollars at the exchange rate shown 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.

Cash with restrictions on immediate use

Cash funds for which restrictions on immediate use exist are accounted for within other current or non-current assets. The group classifies restricted cash in other current assets if the cash is to be used within a year for payment of existing or maturing obligations. If the cash is to be held for a longer period of time, the restricted cash is shown in other non-current assets. Cash classification in the noncurrent section is also set aside for plant expansion, retirement of long-term debt or purchase of long-term investments.

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 - 20 years
Machinery and equipment	2 - 20 years
Vehicles	5 - 20 years

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

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. It is assigned to reporting units as of the acquisition date. Goodwill is not amortized, but is tested for impairment at least on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The impairment test requires estimating the fair value of a reporting unit and comparing it with its carrying amount, including goodwill assigned to the reporting unit. If the estimated fair value of the reporting unit is less than its net carrying amount, including goodwill, then the goodwill is written down to its implied fair value.

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 the 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 estimated useful life.

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.

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 the 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 effect on deferred income tax assets and liabilities of a change in tax rates is recognized in earnings in the reporting period which includes the enactment date.

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.

An income tax position is recognized only if the uncertain position is more likely than not of being sustained upon examination, based on its technical merits. A recognized income tax position is measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties relating to unrecognized tax benefits in income tax expense in earnings.

Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at cost. Subsequent to initial recognition, long-term borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in earnings over the period of the borrowings.

If borrowings are repurchased or settled before maturity, any difference between the amount paid and the carrying amount is recognized in earnings in the period in which the repurchase or settlement occurs.

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, 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 customers that do not include significant post-delivery obligations. Service revenue is recognized when the services are rendered and collectability 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 to the extent that the work has been performed.

In 2012 the Group changed its revenue recognition policy from units-of-delivery method to the percentage-of-completion method. This change was caused by the intention of the Group to convert from US GAAP to IFRS at some future date. Both methods are acceptable under US GAAP but percentage-of-completion method is preferable due to providing more transparency and more regular recognition of income. The adjustments required to reflect this change in accounting policy are shown in Comparative amounts section of Note 2.

The units-of-delivery method recognizes as revenue the contract price of units of a basic production product delivered during a period and as the cost of earned revenue the costs allocable to the delivered units; costs allocable to undelivered units were reported in the balance sheet as inventory or work in progress.

The percentage-of-completion method recognizes income as work on a contract progresses. For unit-price contracts (based on meters drilled or day-rates) the percentage-of-completion equals 100% of work performed each month. Revenue is recognized based on meters drilled or day-rates. For fixed-price contracts the percentage-of-completion is defined based on surveys of work performed or completion of physical proportion. Contract costs are accumulated in the same manner as inventory costs and are charged to operations as the related revenue from contracts is recognized. 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.

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 value added tax.

Treasury stock

Purchases by Group companies of the Company's outstanding stock are recorded at cost and classified as treasury stock within Stockholders' equity. Authorized and Issued stock includes treasury stock. Outstanding stock 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.

Share-based payments

The Group accounts for liability classified share-based payment awards to employees at fair value on the date of grant and as of each reporting date. Expenses are recognized over the vesting period. Equity classified share-based payment awards to employees are valued at fair value on the date of grant and expensed over the vesting period.

Commitments and contingencies

Certain conditions may exist as of the 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 earnings. If a probable material loss is within a 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.

Changes in accounting policy

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

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

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

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

Recent accounting pronouncements

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

In January 2013, the FASB issued ASU No. 2013-01 *"Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,"* which clarifies that ordinary trade receivables and payables are not in the scope of ASU No. 2011-11. The Group is evaluating the effect of the adoption of ASU No. 2011-11 and does not expect any material impact on its results of operations, financial position or cash flows.

Comparative amounts

In 2012 the Group changed its revenue recognition policy from units-of-delivery method to the percentage-of-completion method. This change was caused by the intention of the Group to convert from US GAAP to IFRS at some future date (see above in the Revenue recognition section of Note 2).

The following prior period amounts have been adjusted to conform to the current period presentation.

Consolidated balance sheet

The following are the consolidated balance sheet captions as of December 31, 2011 as previously reported and adjusted:

	2011 as previously reported	Adjustment	2011 as adjusted
Accounts receivable, net	348,082	30,441	378,523
Inventories	214,434	(23,707)	190,727
Deferred income tax assets (current)	5,057	(1,347)	3,710
Retained earnings	787,250	5,861	793,111
Accumulated other comprehensive loss	(167,717)	(473)	(168,190)

The following are the consolidated balance sheet captions as of December 31, 2010 as previously reported and adjusted:

	2010 as previously reported	Adjustment	2010 as adjusted
Accounts receivable, net	235,360	17,389	252,749
Inventories	145,633	(17,715)	127,918
Deferred income tax assets (current)	11,407	65	11,472
Retained earnings	578,989	(273)	578,716
Accumulated other comprehensive loss	(74,063)	12	(74,051)

The retained earnings as of December 31, 2009 were adjusted from USD 596,340 thousand to USD 596,594 thousand.

Consolidated statement of comprehensive income

The following are captions of the statement of comprehensive income for the year ended December 31, 2011 as previously reported and adjusted:

	2011 as previously reported	Adjustment	2011 as adjusted
Revenue from drilling and related services	2,720,112	14,332	2,734,444
Cost of services	(1,898,246)	(8,010)	(1,906,256)
Taxes other than income taxes	(118,850)	(331)	(119,181)
Depreciation	(215,168)	1,676	(213,492)
Income tax expense	(82,512)	(1,533)	(84,045)
Net income	277,237	6,134	283,371
Basic (and diluted) earnings per share of common stock (US dollars)	1.89	0.04	1.93
Foreign currency translation loss	(91,604)	(485)	(92,089)
Comprehensive income	183,583	5,649	189,232

The following are captions of the statement of comprehensive income for the year ended December 31, 2010 as previously reported and adjusted:

	2010 as previously reported	Adjustment	2010 as adjusted
Revenue from drilling and related services	1,798,881	10,024	1,808,905
Cost of services	(1,195,891)	(8,442)	(1,204,333)
Depreciation	(142,000)	(2,241)	(144,241)
Income tax expense	(71,812)	132	(71,680)
Net income	207,353	(527)	206,826
Basic earnings per share of common stock (US dollars)	1.45	(0.01)	1.44
Foreign currency translation loss	(7,510)	12	(7,498)
Comprehensive income	198,772	(515)	198,257

Consolidated statement of cash flows

The following are captions of the statement of cash flows for the year ended December 31, 2011 as previously reported and adjusted:

	2011 as previously reported	Adjustment	2011 as adjusted
Net income	277,237	6,134	283,371
Depreciation	215,168	(1,676)	213,492
Deferred income tax	26,214	1,533	27,747
Accounts receivable, net	(98,111)	(15,268)	(113,379)
Inventories	(60,468)	9,277	(51,191)

The following are captions of the statement of cash flows for the year ended December 31, 2010 as previously reported and adjusted:

	2010 as previously reported	Adjustment	2010 as adjusted
Net income	207,353	(527)	206,826
Depreciation	142,000	2,241	144,241
Deferred income tax	8,767	(132)	8,635
Accounts receivable, net	(41,080)	(10,024)	(51,104)
Inventories	(27,383)	8,442	(18,941)

Certain other prior period amounts have been reclassified to conform with current period presentation.

Note 3. Cash and cash equivalents

Cash and cash equivalents include the following:

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Short-term deposit—Russian rubles	128,295	194,771	154,730
Cash held in banks—Russian rubles	154,992	188,410	76,451
Cash held in banks—US dollars	19,118	81,770	357,911
Short-term deposit—US dollars	2,805	39,320	40,033
Other	123	5,510	341
Total cash and cash equivalents	**305,333**	**509,781**	**629,466**

Note 4. Accounts receivable, net

Accounts receivable include the following:

	As of December 31, 2012	As of December 31, 2011 (adjusted)	As of December 31, 2010 (adjusted)
Trade accounts receivable	522,930	385,062	261,288
Advances given	18,460	8,062	8,737
	541,390	393,124	270,025
Allowance for doubtful accounts	(12,577)	(14,601)	(17,276)
Total accounts receivable, net	**528,813**	**378,523**	**252,749**

Note 5. Property, plant and equipment

Property, plant and equipment include the following:

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Machinery and equipment	2,121,620	1,524,661	964,134
Buildings	39,674	28,654	38,112
Vehicles	42,185	23,231	34,712
	2,203,479	1,576,546	1,036,958
Less: accumulated depreciation	(762,569)	(515,930)	(379,477)
Construction in progress	51,568	92,142	40,146
Advances given for property, plant and equipment	275,641	133,367	67,557
Total property, plant and equipment	**1,768,119**	**1,286,125**	**765,184**

Note 6. Long-term accounts receivable

The Company's long-term accounts receivable were as follows:

	Stated interest rates	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Long-term accounts receivable denominated in USD	6%	—	—	791
Long-term accounts receivable denominated in Russian rubles	0.00%-8.25%	256	2,181	6,047
Total long-term accounts receivable		**256**	**2,181**	**6,838**

Long-term accounts receivable denominated in Russian rubles represent amounts receivable from trade sales during 2010 and 2011 in amount of USD 7.0 million and sales of property, plant and equipment as a part of the disposal of non-core assets program during 2011 in amount of USD 10.5 million.

Long-term accounts receivable denominated in US dollars represented 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 the Company. The Group recognized a gain of USD 5 million on this transaction. These receivables were 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 12.24%-15% estimated by management to be the rate applicable to the Group for borrowings of a similar nature.

Note 7. Goodwill

The movement in goodwill was as following:

Goodwill as of December 31, 2010	**32,727**
Goodwill acquired	110,458
Goodwill disposed	(30,628)
Cumulative translation adjustment	(7,158)
Goodwill as of December 31, 2011	**105,399**
Cumulative translation adjustment	2,599
Goodwill as of December 31, 2012	**107,998**

Note 8. Other current and non-current assets

The Group had restricted cash of USD 45.4 million, USD 42.0 million and USD 61.7 million included in other non-current assets as of December 31, 2012, December 31, 2011 and December 31, 2010, respectively. This amount collateralizes the Company's issuance of commercial letters of credit.

The Group had additional restricted cash of USD 4.0 million, USD 1.4 million ans USD 6.1 million included in other current assets as of December 31, 2012, December 31, 2011 and December 31, 2010, respectively. These amounts of USD 4.0 and USD 1.4 million as of December 31, 2012 and 2011, respectively, collateralize the Company's issuance of a guarantee for a customer. The amount of USD 6.1 million as of December 31, 2010 consists of a bid bond in the amount of USD 1.0 million and a guarantee issued for a subcontractor in the amount of USD 5.1 million (refer to Note 19).

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

Note 9. Obligations under capital leases

The Group leased drilling equipment and vehicles under agreements with an option to purchase the leased equipment at the end of the lease term. These assets were accounted for as capital leases.

Included in machinery and equipment and vehicles is nil, nil and USD 2.4 million of assets under capital lease as of December 31, 2012, 2011 and 2010, respectively.

Property, plant and equipment includes assets under capital lease as follows:

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
At cost	—	—	3,761
Less: accumulated depreciation	—	—	(1,349)
Net property, plant and equipment	**—**	**—**	**2,412**

Note 10. Current portion of long-term debt

Current portion of long-term debt includes the following:

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Current portion of long-term debt (note 11)	257,860	175,217	117,274
Short-term capital lease obligations	—	—	276
Total current portion of long-term debt	**257,860**	**175,217**	**117,550**

Note 11. Long-term debt

Long-term debt includes the following:

Lender	Final maturity date	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Debt of the Company				
Loans from stockholders	2014	50,000	50,000	70,000
Debt of the Company's subsidiaries				
Raiffeisenbank	2016	220,000	220,000	—
8.4% Russian ruble bonds, maturing 2018	2018	164,622	155,298	—
Alfa Bank	2013	122,478	231,084	254,291
OOO Rushong-Hua	2015	52,321	—	—
OAO Sberbank of Russia	2014	43,899	62,119	—
OAO Sberbank of Russia	2015	26,339	—	—
OAO Sberbank of Russia	2013	20,214	31,441	50,275
Individual	2012	—	3,392	6,392
ZAO UniCredit Bank	2012	—	—	11,866
Loans from LUKOIL Group companies				
OOO LUKOIL-West Siberia	2011	—	—	7,078
OOO LUKOIL-Perm	2041	—	—	1,000
OAO Tebukneft	2010	—	—	282
OAO Uhtaneft	2015	—	—	78
Total long-term debt		**699,873**	**753,334**	**401,262**
Current portion of long-term debt (Note 10)		(257,860)	(175,217)	(117,274)
Long-term lease obligation		—	—	2,379
Total non-current long-term debt		**442,013**	**578,117**	**286,367**

Stockholders

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

Debt of the Company's subsidiaries

Raiffeisenbank

Long-term debt with Raiffeisenbank with an outstanding balance of USD 220.0 million as of December 31, 2012 is denominated in USD and bears interest at 5.65% per annum. This debt is secured by the shares of a newly acquired company CSVI (refer to Note 17).

Russian ruble bonds

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

Alfa-Bank

Long-term debt with Alfa-Bank with an outstanding balance of USD 122.5 million as of December 31, 2012 is denominated in Russian rubles and bears interest at 8.4% per annum.

OOO Rushong-Hua

Long-term debt with OOO Rushong-Hua with an outstanding balance of USD 52.3 million as of December 31, 2012 is denominated in Russian rubles at effective interest rate of 6.3% per annum.

OAO Sberbank of Russia

Long-term debt with OAO Sberbank of Russia with an outstanding balance of USD 43.9 million as of December 31, 2012 is denominated in Russian rubles and bears interest at 7.7% per annum.

Long-term debts with OAO Sberbank of Russia with an outstanding balance of USD 20.2 million as of December 31, 2012 are denominated in Russian rubles and bear interest at LIBOR plus 4.1% per annum.

Long-term debt with OAO Sberbank of Russia with an outstanding balance of USD 26.3 million as of December 31, 2012 is denominated in Russian rubles and bears interest at 10.15% per annum.

Individual

Long-term debt from an individual represents a loan denominated in US dollars which bore interest at a stated rate of 0% and matured on May 1, 2012. This relates to the acquisition of the new workover company OOO Meridian (refer to Note 17). This loan was recorded at fair value based on the effective interest rate estimated by the management at the acquisition date, which was 13% per annum.

This debt was secured by the shares of OOO Meridian.

ZAO UniCredit Bank

Long-term debt with ZAO UniCredit Bank was denominated in Russian rubles and bore interest at 8.95% per annum. This debt was repaid during 2011 before its maturity.

LUKOIL Group companies

Long-term debt, denominated in Russian rubles, represented various borrowings from LUKOIL Group Companies. This long-term debt was recorded at fair value based on effective interest rates estimated by management at the acquisition date, which on average was 12.66% per annum. This debt was repaid during 2011 before maturity.

As of December 31, 2012 and 2011 the Group had two unused lines with ZAO UniCredit Bank. The first one is a revolving line of credit denominated in Russian rubles which at the currency exchange rate as of December 31, 2012 equaled to USD 96.1 million. This line of credit is short-term in nature with the duration of 90 days and availability period until November 2014. The second one is a revolving overdraft line denominated in Russian rubles which at the currency exchange rate as of December 31, 2012 equals to USD 17.3 million and is available until September 2015. Both lines are solely intended for issuing or extending unsecured commercial letters of credit for the purpose of acquiring new drilling rigs (used as security for these lines). At year end both lines of credit were undrawn.

As of December 31, 2012, the Group also had a revolving multi-currency overdraft line with OAO Sberbank of Russia denominated in Russian rubles which at the currency exchange rate as of December 31, 2012 equaled to USD 98.8 million and is available until June 2017. It is solely intended for issuing or extending unsecured commercial letters of credit for the purpose of acquiring new drilling rigs. As of December 31, 2012, the line was undrawn.

As of December 31, 2012 the Group had secured a five-year loan facility of USD 227 million with an interest rate of three month LIBOR plus 3.65% per annum arranged by ZAO UniCredit Bank. The grace period for the principal is three years. The term of the facility is through December 27, 2017. The loan agreement also provides an irrevocable renewable bank guarantee of USD 45.4 million.

These unused lines of credit along with debts from *OAO Sberbank of Russia* are secured by property, plant and equipment with a carrying amount of USD 264.9 million as of December 31, 2012 (2011: USD 50.4 million; 2010; USD 53.2 million).

Maturities of long-term debts outstanding at December 31, 2012 are as follows:

2013	2014	2015	2016	2017	2018 and thereafter	Total
257,860	148,615	94,930	33,846	—	164,622	699,873

Note 12. 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.

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

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

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

The majority of the Group's earnings in 2012, 2011 and 2010 were taxed in the Russian Federation.

As of December 31, 2012, 2011 and 2010, and during 2012, 2011 and 2010 the Group did not have any unrecognized tax benefits and thus, no interest and penalties related to unrecognized tax benefits were accrued. The Group's policy is to record interest and penalties related to unrecognized tax benefits as components of income tax expense. In addition, the Group does not expect that the amount of unrecognized tax benefits will change significantly within the next twelve months.

The Company and its subsidiaries file standalone income tax returns in each country in which they operate. Income tax returns are open for inspection by the tax authorities in Russia for tax years 2010-2012, in Turkmenistan for 2010-2012, in Kazakhstan for 2009-2012 and Cyprus for 2011-2012.

	Year ended December 31, 2012	Year ended December 31, 2011 (adjusted)	Year ended December 31, 2010 (adjusted)
Current income tax expense	87,533	56,298	63,045
Deferred income tax expense	34,307	27,747	8,635
Total income tax expense	**121,840**	**84,045**	**71,680**

Deferred income taxes are included in the consolidated balance sheets as follows:

	As of December 31, 2012	As of December 31, 2011 (adjusted)	As of December 31, 2010 (adjusted)
Deferred income tax assets—current	11,175	3,710	11,472
Deferred income tax assets—non-current	2,156	2,833	1,422
Deferred income tax liabilities—current	(6,499)	(5,340)	(478)
Deferred income tax liabilities—non-current	(92,639)	(49,376)	(24,744)
Net deferred income tax liability	**(85,807)**	**(48,173)**	**(12,328)**

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, 2012	As of December 31, 2011 (adjusted)	As of December 31, 2010 (adjusted)
Inventories	15,884	8,720	7,581
Accrued pension liability	3,128	2,236	1,378
Property, plant and equipment	2,156	2,056	1,422
Accounts payable and accrued liabilities	2,064	1,810	5,852
Long-term accounts receivable	97	33	173
Long-term debt	—	—	290
Other current assets	—	203	570
Deferred income tax assets	**23,329**	**15,058**	**17,266**
Property, plant and equipment	(95,865)	(50,995)	(26,450)
Accounts receivable	(9,859)	(7,705)	(2,143)
Investments	(3,412)	(4,325)	—
Inventories	—	(206)	(12)
Long-term debt	—	—	(135)
Other current liabilities	—	—	(854)
Deferred income tax liabilities	**(109,136)**	**(63,231)**	**(29,594)**
Net deferred income tax liabilities	**(85,807)**	**(48,173)**	**(12,328)**

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, 2012, 2011 and 2010.

The Company has not recognized deferred income taxes on USD 1,182 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 is USD 57 million.

Bases on the Company's intercompany dividend policy the Company recognized deferred income tax on 20% of the undistributed earnings of its Russian subsidiaries from its on-shore segment earned during the reporting period and on 30% of the undistributed earnings of its Russian subsidiaries from its off-shore segment earned during the reporting period. The remaining balances of retained earnings of these companies is considered to be reinvested indefinitely. Management of the Company has the intention and the ability not to distribute these retained earnings.

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian combined statutory income tax rate to income before income taxes to total income taxes:

	Year ended December 31, 2012	Year ended December 31, 2011 (adjusted)	Year ended December 31, 2010 (adjusted)
Income before income tax	503,849	367,416	278,506
Notional income tax at Russian statutory rate 20%	100,770	73,483	55,701
Increase in income tax due to:			
Non-deductible items, net	6,176	8,958	7,461
Regional rate differences	(2,179)	(967)	(1,255)
Withholding tax	4,258	4,325	8,103
Foreign rate differences	12,815	(1,754)	1,670
Total income tax expense	**121,840**	**84,045**	**71,680**

Taxes receivable include the following:

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Prepaid income tax	18,274	13,930	14,169
Prepaid value added tax	8,024	13,436	16,096
Value added tax recoverable	707	4,147	3,565
Other taxes	196	1,633	1,130
Total taxes receivable	**27,201**	**33,146**	**34,960**

Taxes payable include the following:

	As of December 31, 2012	As of December 31, 2011	As of December 31, 2010
Value added tax	53,112	45,442	33,138
Social taxes and contributions	15,720	5,843	7,859
Personal income tax	10,516	2,844	6,559
Property tax	5,012	6,988	3,139
Income tax payable	1,649	3,181	1,942
Other taxes	4,267	4,732	1,620
Total taxes payable	**90,276**	**69,030**	**54,257**

Note 13. 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 Company's employees. This plan is administered by a non-state pension fund, LUKOIL-GARANT, and provides pension benefits. The Company also provides several long-term employee benefits such as death-in-service benefits, lump sum at jubilee ages and lump-sum payments upon retirement of a defined benefit nature.

Jubilee benefits were calculated for the first time as at December 31, 2010 of USD 1.3 million and recognized immediately through earnings 2010.

Additionally the Company provides financial support, of a defined benefit nature, to its old age and disabled pensioners, who did not acquire any pension under the occupational pension program. The liabilities in respect to future pensioners were calculated for the first time as at December 31, 2011 of USD 1.8 million and recognized immediately through earnings 2011. Additionally in 2012 the liabilities in respect to payments in case of death of a pensioner were calculated for the first time as at December 31, 2012 of USD 0.5 million and recognized immediately through earnings 2012.

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 3.5% of their annual salary.

Employees also have the right to receive upon retirement the benefits accumulated under the previous pension plan when OOO Burovaya Kompaniya Eurasia was a subsidiary of the LUKOIL Group. This plan was replaced in December 2003. These benefits have been fixed and included in the benefit obligation as of December 31, 2012, 2011 and 2010. The amount was determined primarily based on a formula including past pensionable service and relative salaries as of December 31, 2003.

Liabilities for former LUKOIL employees in respect of their pensions funded via LUKOIL-GARANT were included in the PBO and in assets as December 31, 2011 in the same amount equal to USD 3.8 million. This amount was excluded from liabilities and assets on January 1, 2011 by applying curtailment on liabilities and divestiture on assets due to the fact that these pension obligations were fully funded.

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, 2012, 2011 and 2010.

LUKOIL-GARANT is a multiemployer pension plan in which OOO Burovaya Kompaniya Eurasia and OOO KRS Eurasia employees participate. The information that follows represents the obligations and assets attributable to OOO Burovaya Kompaniya Eurasia and OOO KRS Eurasia employees participating in this pension plan.

The following table provides information about the benefit obligations and plan assets as of December 31, 2012, 2011 and 2010. The benefit obligations below represent the projected benefit obligation of the pension plan.

	2012	2011	2010
Benefit obligations			
Benefit obligations as of January 1	15,171	14,883	11,558
Plan amendments	1,449	941	1,794
Service cost	1,324	1,107	797
Interest cost	1,277	954	1,037
Effect of exchange rate changes	997	(898)	(134)
Actuarial loss (gain)	969	1,667	(785)
Curtailment		(3,759)	—
Benefits paid	(1,878)	(1,554)	(652)
Benefits in case of death of a pensioner	495	—	—
Financial support to future pensioners	—	1,830	—
Jubilee benefits	—	—	1,268
Benefit obligations as of December 31	**19,804**	**15,171**	**14,883**

	2012	2011	2010
Plan assets			
Fair value of plan assets as of January 1	3,954	7,994	7,770
Employer contributions	1,580	1,290	515
Return on plan assets	312	65	347
Other changes in fair value of individual pension accounts	—	—	(230)
Effect of exchange rate changes	238	(81)	(60)
Divestitures	—	(3,759)	—
Benefits paid	(1,878)	(1,554)	(652)
Interest income on individual pension accounts	—	—	304
Fair value of plan assets as of December 31	**4,206**	**3,955**	**7,994**
Funded status	(15,598)	(11,216)	(6,889)
Amounts recognized in the consolidated balance sheet as of December 31			
Accrued pension liability	(15,598)	(11,216)	(6,889)

Weighted average assumptions used to determine benefit obligations as of December 31, 2012, 2011 and 2010:

	2012	2011	2010
Discount rate	7.10%	7.80%	7.80%
Rate of compensation increase	7.10%	7.30%	7.70%

Weighted average assumptions used to determine net periodic benefit costs for the year ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Discount rate	7.80%	7.80%	8.70%
Expected return on plan assets	8.63%	8.95%	10.07%
Rate of compensation increase	7.30%	7.70%	8.10%

Included in accumulated other comprehensive loss as of December 31, 2012, 2011 and 2010, are the following pre-tax amounts that have not yet been recognized in net periodic benefit cost:

	2012	2011	2010
Unamortized prior service cost	(1,988)	(777)	(80)
Unrecognized actuarial (loss) gain	(1,366)	(325)	1,622
Total benefit	**(3,354)**	**(1,102)**	**1,542**

Amounts recognized in other comprehensive loss before tax during the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Additional prior service cost from plan amendment	1,483	859	1,788
Re-classified prior service (cost) benefit amortization	(319)	(158)	131
Additional loss (gain) arising during the period	1,058	1,822	(593)
Re-classified gain amortization	—	39	13
Net amount recognized in other comprehensive loss for the period	**2,222**	**2,562**	**1,339**

The real expected rates of return 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.

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, 2012	As of December 31, 2011	As of December 31, 2010
Bank deposits	73%	44%	41%
Shares in investment funds	11%	13%	13%
Eurobonds	8%	4%	0%
Russian corporate bonds	4%	28%	37%
Equity securities of Russian issuers	0%	6%	5%
Shares of OAO LUKOIL	0%	2%	1%
Russian municipal bonds	—	—	2%
Other assets	4%	3%	1%
	100%	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 Level 1 investments: securities with fixed yield. The securities with fixed yield include mainly high yield corporate bonds. Maturities range from one to three years.

Components of net periodic benefit cost were as follows:

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Service cost	1,324	1,107	797
Interest cost	1,277	954	1,037
Less expected return on plan assets	(335)	(394)	(719)
Amortisation of prior service cost (benefit)	312	173	(132)
Recognised actuarial gain	—	(42)	(13)
Benefits in case of death of a pensioner	495	—	—
Financial support to future pensioners	—	1,830	—
Jubilee benefits	—	—	1,268
Total net periodic benefit cost	**3,073**	**3,628**	**2,238**

Total employer contributions for 2013 are expected to be approximately USD 1.6 million.

Accumulated benefit obligations were USD 15.2 million, USD 12.1 million and USD 12.6 million as of December 31, 2012, 2011 and December 31, 2010, respectively.

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	2013	2014	2015	2016	2017	5-year period 2013-2017	5-year period 2018-2022
Pension benefits	385	477	613	836	733	3,044	2,781
Lump sum payments upon retirement, death and disability	1,909	1,376	1,623	1,760	1,933	8,601	9,995
Total expected benefits to be paid	**2,294**	**1,853**	**2,236**	**2,596**	**2,666**	**11,645**	**12,776**

Note 14. Fair value of financial instruments

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

During the years ended December 31, 2012, 2011 and 2010, the Group did not have significant transactions or events that would result in nonfinancial assets and liabilities needing to be measured at fair value on a nonrecurring basis.

Note 15. Cost of services, excluding depreciation and taxes

Cost of services, excluding depreciation and taxes, includes the following:

	Year ended December 31, 2012	Year ended December 31, 2011 (adjusted)	Year ended December 31, 2010 (adjusted)
Services of subcontractors	936,797	917,187	492,243
Wages and salaries	488,407	425,210	326,299
Materials	414,288	309,252	221,375
Fuel and energy	152,785	131,776	80,273
Transportation of employees to drilling fields	40,003	30,689	23,364
Leasing and rent	20,781	26,336	10,884
Other	98,275	65,806	49,895
Total cost of services	**2,151,336**	**1,906,256**	**1,204,333**

Note 16. Stockholders' equity

Common and treasury stock

Number of shares	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Authorized and issued common stock, par value 0.01 US dollar each	146,865,243	146,865,243	146,865,243
Treasury stock	(77,857)	(105,781)	(455,797)
Issued and outstanding common stock, par value 0.01 US dollar each	**146,787,386**	**146,759,462**	**146,409,446**

During 2010 certain directors of the Group elected to receive GDR's in lieu of cash. 19,854 shares of common stock held as treasury stock were issued to these directors as a compensation fee.

During 2010 the Group awarded 718,868 shares of common stock held as treasury stock to certain top-managers as a part of its incentive plan (refer to Note 22).

On April 15, 2010 the Company completed the placement of the balance of its GDRs repurchased by the Group as part of its buy-back program at a price of USD 19.00 per GDR. One GDR represents one ordinary share.

During 2010 the Group acquired an additional 455,797 shares of common stock for its compensation incentive program.

The movement of treasury stock during 2011 and 2012 was as following:

Number of shares held in treasury as of December 31, 2010	**455,797**
Number of shares purchased	188,200
Exercise of incentive compensation plan	(522,060)
Directors fees	(16,156)
Number of shares held in treasury as of December 31, 2011	**105,781**
Directors fees	(27,924)
Number of shares held in treasury as of December 31, 2012	**77,857**

Dividends and dividends limitations

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

Retained earnings of the Company's Russian subsidiaries were RUB 36.4 billion, RUB 25.4 billion and RUB 26.7 billion, respectively as of December 31, 2012, 2011 and 2010, pursuant to the statutory financial statements, which at the US dollar exchange rates as of December 31, 2012, 2011 and 2010 amount to USD 1,199 million, USD 789 million and USD 950 million, respectively.

At the Board of Directors meeting on December 12, 2012, dividends were declared for 2012, in the amount of USD 0.70 per share of common stock. Dividends payable by the Company of USD 103 million were included in "Accounts payable and accrued liabilities" in the consolidated balance sheet as of December 31, 2012.

At the Board of Directors meeting on December 12, 2011, dividends were declared for 2011, in the amount of USD 0.47 per share of common stock. Dividends payable by the Company of USD 69 million were included in "Accounts payable and accrued liabilities" in the consolidated balance sheet as of December 31, 2011. During the reporting period this dividend was fully paid.

At the Board of Directors meeting on December 14, 2010, dividends were declared for 2010, in the amount of USD 0.31 per share of common stock. Dividends payable by the Company of USD 45 million were included in "Accounts payable and accrued liabilities" in the consolidated balance sheet as of December 31, 2011.

In April 2010 in connection with the placement of its shares held in treasury, the Company announced a one-time special interim dividend of USD 179 million. During the year ended December 31, 2010 this dividend was fully paid.

Earnings per share

The calculation of earnings per share for these years was as follows:

	Year ended December 31, 2012	Year ended December 31, 2011 (adjusted)	Year ended December 31, 2010 (adjusted)
Net income available for common stockholders	382,009	283,371	206,826
Weighted average number of outstanding shares	146,782,754	146,768,307	143,270,265
Basic earnings per share of common stock (US dollars)	2.60	1.93	1.44
Contingent shares of stock incentive program (refer to Note 22)	875,260	—	522,060
Weighted average number of outstanding shares, after dilution	147,658,014	146,768,307	143,792,325
Diluted earnings per share of common stock (US dollars)	2.59	1.93	1.44

Note 17. Business combinations

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

At the date of acquisition the Group allocated USD 62.1 million to goodwill, USD 194.2 million to property, plant and equipment, USD 5.6 million to cash, USD 11.3 million to current assets and USD 10.3 million to current liabilities. The value of property, plant and equipment was determined by an independent appraiser.

The main factors that made up the goodwill recognition are related to synergies the Group is expecting to achieve from combined operations and the profit margins that the acquired business is expected to generate. The goodwill is not considered to be deductible for tax purposes.

Since the date of acquisition the revenue and net income of the acquired company in amounts of USD 38.7 million and USD 30.6 million, respectively, are included in the Group's consolidated statement of income for the year ended December 31, 2011.

The acquired Company did not prepare financial statements in accordance with US GAAP and retrospective application requires assumptions about management's intent in a prior period that cannot be independently substantiated. Therefore, it is impractical to provide pro forma revenue and earnings information.

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

At the date of acquisition the Group allocated USD 48.3 million to goodwill, USD 220.7 million to property, plant and equipment, USD 40.0 million to cash, USD 63.6 million to accounts receivable, USD 38.3 million to inventory, USD 52.7 million to current liabilities and USD 12.7 million to long-term deferred tax liability. The value of property, plant and equipment was determined by an independent appraiser.

The main factors that made up the goodwill recognition are related to synergies the Group is expecting to achieve from combined operations and the profit margins that the acquired business is expected to generate. The goodwill is not considered to be deductible for tax purposes.

The revenue and net income of the acquired companies in amounts of USD 287.0 million and USD 12.9 million, respectively, are included in the Group's consolidated statement of income for the year ended December 31, 2011.

The acquired businesses were reorganized prior to the dates of acquisitions and retrospective application requires assumptions about management's intent in a prior period that cannot be independently substantiated. Therefore, it is impractical to provide pro forma revenue and earnings information.

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

In June 2010, the Group acquired a 100% interest in OOO Meridian for USD 12.2 million which was paid in three installments ending May 1, 2012. The fair value of the consideration comprised USD 11.0 million as of the date of acquisition, of which USD 6.4 million was paid before December 31, 2011. The remaining amount of USD 3.4 million was recorded as loan to individual (refer to Note 11).

OOO Meridian performs well workover in the Komi region. The purpose of the acquisition was to gain access to a new geographical market for workover services allowing more efficient delivery of services.

The Group allocated USD 9.0 million to goodwill, USD 0.7 million to property, plant and equipment, USD 2.5 million to current assets, and USD 1.2 million to liabilities. The value of property, plant and equipment was determined by an independent appraiser. The main factors that made up the goodwill recognition were related to synergies the Group was expecting to achieve from combined operations. The goodwill is not considered to be deductible for tax purposes.

An impairment loss in amount of USD 7.1 million was recognized at December 31, 2010 due to the revision of future development plans. The amount of the loss was determined based on a present value valuation technique.

On August 9, 2010 the Group acquired a 100% interest in OOO "Megionskoye Tamponazhnoye Upravleniye" (OOO MTU) from OOO "Slavneft-Megionneftegaz" for RUB 275 million (or USD 9.0 million at the US dollar exchange rate as of December 31, 2010) paid in cash.

OOO MTU is a Russian provider of cementing services in West Siberia. The purpose of the acquisition was to broaden the spectrum of well construction services, improve the technical efficiency of the Group and to obtain a new customer in West Siberia.

The Group allocated USD 7.7 million to property, plant and equipment, USD 5.2 million to other assets, USD 3.4 million to liabilities and recognized USD 0.5 million gain on the bargain purchase. The value of property, plant and equipment was determined by an independent appraiser. The transaction resulted in a gain because the acquired entity was generating low profit margins prior to the acquisition and represented non-core assets of OOO "Slavneft-Megionneftegaz".

Note 18. Commitments and contingencies

Commitments

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage 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 systems in the Russian Federation, Kazakhstan and Turkmenistan are relatively new and are characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open in Russia for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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

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

Note 19. Related party transactions

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

The Company's General Counsel, Douglas Stinemetz, is a partner with The Stinemetz Law Firm. During year ended December 31, 2012, 2011 and 2010 the firm billed the Company for costs and expenses of USD 2.0 million, USD 2.4 million and USD 2.2 million, respectively. Mr. Stinemetz is not otherwise paid for his services as the Company's General Counsel.

Long-term loans from stockholders were USD 50 million as of December 31, 2012 and December 31, 2011 and USD 70 million as of December 31, 2010 (refer to Note 11). Interest expense of USD 2.9 million was recognized and paid on these loans during the years ended December 31, 2012 and 2011 and USD 6 million during the year ended December 31, 2010.

During 2012 the Group decreased its share in OOO Kliver from 51% to 25% but increased its investment in OOO Kliver by USD 5.6 million. During 2012 the Group issued a short-term loans of USD 20.6 million to an associate company OOO Kliver. The loans are denominated in Russian rubles, bear interest at 10% and mature on July 1, 2013. The outstanding balance was USD 3.6 million as of December 31, 2012. Interest income of USD 0.2 million was recognized during 2012.

In October 2010 the Company originated a bank guarantee with a value of USD 5.1 million (refer to Note 8) in favor of a subcontractor in consideration for an option to acquire an interest in an exploration project from a company controlled by related parties. The bank guarantee and the option expired in October 2011 without being exercised and at no cost to the Company.

Note 20. Segment information

Presented below is information about the Group's operating and geographical segments for the periods ended December 31, 2012, 2011 and 2010, in accordance with ASC 280, *"Disclosures about Segments of an Enterprise and Related Information"*.

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

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

The transactions between the segments are immaterial. Segment information is summarized as follows:

For the year ended December 31, 2012

	On-shore drilling services (CIS other than the Caspian Sea)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues	3,071,486	165,847	3,237,333
Net income	323,073	58,936	382,009
Total assets	2,441,391	593,664	3,035,055
Goodwill	47,275	60,723	107,998

For the year ended December 31, 2011

	On-shore drilling services (CIS)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues (adjusted)	2,581,730	185,019	2,766,749
Net income (adjusted)	233,810	49,561	283,371
Total assets (adjusted)	2,102,159	501,657	2,603,816
Goodwill	43,272	62,127	105,399

For the year ended December 31, 2010

	On-shore drilling services (CIS)	Off-shore drilling services (Caspian Sea)	Consolidated
Total revenues (adjusted)	1,709,456	112,724	1,822,180
Net income (adjusted)	181,307	25,519	206,826
Total assets (adjusted)	1,801,484	152,323	1,953,807
Goodwill	32,727	—	32,727

Note 21. Concentration of credit risk and sales

A significant proportion of the Group's operations are with LUKOIL Group companies and as such the Group has significant concentrations of credit risk with the LUKOIL Group.

Included in the Group's sales and accounts receivables are the following transactions and balances with LUKOIL Group companies.

	2012	2011	2010
Revenues for the year ended December 31 (adjusted)	2,054,724	1,692,200	1,280,826
Accounts receivable as of December 31 (adjusted)	260,781	194,005	124,182

Note 22. Incentive Compensation Plan

In March 2008, the Company introduced an incentive plan for certain members of management ("participants") for a five year period beginning January 1, 2008. Compensation under this plan is based on a multiple of the participants' annual salary and adjusted for:

- a percentage determined by the increase in the quoted price of the Company's stock from a pre-determined Starting Price to the closing price of the stock in the particular year ("Factor"), and
- the year of compensation under the plan.

The Factor ranges from 0% (where the increase in the stock price is less than 5%) to 100% (where the increase in the stock price is greater than 20%) for any given year during the five year period.

The percentages applied to each of the years under the plan are equal to 12% for 2008, 15% for 2009, 18% for 2010, 25% for 2011 and 30% for 2012.

The Starting Price for the 2008 year was USD 27.09 and has been determined with reference to the quoted market price of the Company's shares on the London Stock Exchange ("LSE"). The Starting Price is determined at the beginning of each year based on an average quoted stock price for the last 20 trading days of the preceding year.

The rights to compensation under this plan vest yearly, immediately after the final trading day of the compensation year if the participants are still employed or otherwise in good standing with the Company.

The fair value of the plan was estimated using the Monte Carlo simulation method for the years 2008 to 2012, assuming risk-free interest rates of 0.37% and 1.55% that are based on the yield of one and five year US Treasury securities as of the valuation date, respectively, an expected term of five years and a volatility factor of 48%.

The expected volatility factor was estimated based on the average historical volatility of comparable companies' shares for the previous 5 year period, ranging from 40% to 86%. The average and median of these were 56% and 48%, respectively. A portion of the award vests upon completion of each plan year and no restrictions apply thereafter. Therefore, no post vesting discount has been applied.

The grant date fair value of the plan was estimated at USD 21 million by an independent consulting firm. The Company has accrued the total amount as of December 31, 2012.

The participants may only receive GDRs, each representing one ordinary share of the Company. Therefore, the plan is equity classified. The Group recognized USD 4.2 million of compensation expense during for the year ended December 31, 2012. As of December 31, 2012, USD 21 million was recognized on the Company's balance sheet as an increase in additional paid-in capital.

On February 1, 2010 the Company announced that in accordance with its incentive compensation plan participants of the Plan were awarded 718,868 GDRs for their performance in 2009. One GDR represents one ordinary share.

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

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

In accordance with the Company's incentive compensation plan participants of the Plan were awarded 875,260 GDRs for their performance in 2012. One GDR represents one ordinary share.

Note 23. Subsequent events

The Company has evaluated subsequent events from the balance sheet date through March 29, 2013, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.

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