

## Association of Institutional Investors (API)

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### API EGM voting recommendations

Company: **EURASIA DRILLING COMPANY LIMITED**

Meeting date: **November 13, 2015**

#	EGM agenda item	API recommendation
	<p>Special resolution that, subject to the satisfaction of the conditions precedent pursuant to the Merger Implementation Agreement (as defined below):</p> <p>(a) EURASIA DRILLING COMPANY LIMITED («Company») shall be authorized to merge with EDC Acquisition Company Limited (“EACL”) so that one of the two parties to the merger shall be the surviving company in terms of Part XVI of the Companies Law of the Cayman Islands amended as of 2013 (the “Cayman Companies Law”);</p> <p>(b) the merger implementation agreement between the Company and EACL dated 12 October 2015 (the “Merger Implementation Agreement”), the plan of merger between the Company and EACL (the “Plan of Merger”) and the transactions provided for by the Plan of Merger, including the merger of the Company and EACL pursuant to the Cayman Companies Law (the “Merger”), shall be authorized and approved by the Company;</p> <p>(c) the Company shall be authorized to enter into the Plan of Merger; and (d) the Plan of Merger shall be executed by any member of the Special Committee on behalf of the Company and filed with the Cayman Islands Registrar of Companies.</p>	AGAINST

The API recommends that the shareholders vote in the negative (**AGAINST**) due to the following reasons:

1) The offer price (US\$ 11.75 per share) is essentially understated and fails to reflect the Company's fair market value on the basis of the following:

- In 2015, Schlumberger offered to acquire the Company at a price of US\$ 22 per share. Sberbank CIB prepared a related fairness opinion. The offer of \$22 per share represented an 81% premium to the prior day's closing price and a 44% premium to the one-month average, underscoring the strategic value of the asset - Eurasia Drilling is Russia's largest oil services company with over 20% market share. The transaction eventually fell through due to the absence of approval from the public authorities of Russia; nevertheless, we believe that the Company's valuation made in the course of the official offer by a major international strategic investor is the most relevant and credible benchmark that cannot be ignored.
- Based on the publicly available information on the above transaction, the price of US\$ 22 per share was offered for the whole of the Company's free-float (30.67% of shares); the transaction structure assumed the subsequent acquisition of a 14.98% stake at the same price from major shareholders and provided for a call option in respect of the remaining 54.35% stake for a total amount of US\$ 176 million that could be exercised during a 2-year period commencing 3 years after the acquisition of the 14.98% stake. Therefore, the price offered by Schlumberger (US\$ 22 per share) did not include any control premium; the shareholders were offered an expected premium for the opportunity to delist the Company's stock according to the general public company buyout practice used in mature markets (as was in the Dell Inc case in 2013).
- According to Bloomberg, analysts of investment banks estimated the average fair value of the Company's shares at US\$ 15.85 on the day before Offer 1 was announced factoring in the current difficulties in the oil industry, the portfolio of major customers' orders, as well as macroeconomic factors and development prospects.
- The average weighted price of the Company's GDRs was US\$ 15.7 for the 6-month period, US\$ 17.2 for the 12-month period, US\$ 22.6 per GDR for the 24-month period.
- In terms of key multiples (EV/EBITDA and P/E), the price offered for EDC (US\$ 11.75 per share) implies an average discount of 62% from the value of international peers.
- According to a report dated August 31, 2015 by the equity research team of Renaissance Capital (the company advising the Special Committee), the replacement cost-based value of EDC is at least US\$ 14.5 per GDR and the target price is US\$ 17.0/GDR.

2) The terms of transaction published by the Company for the purpose of Offer 2 on October 12, 2015 appeared to be substantially worse compared with those announced as part of the intended Schlumberger deal. In particular, the Company lowered the purchase price by 47% and stressed that all potential dissenting could be charged the amount of legal expenses in the event of a lawsuit filed by any of such dissenting shareholders against the Company seeking to establish the fair value of the Company shares. This indicates an obviously hostile approach to delisting the Company's stock and poses enormous reputational risks and negative implications for all parties involved in the offer preparation.

Seeing as the provisions of the Cayman Companies Law allow for the passing of resolutions by a two-thirds majority of votes and the shareholders initiating the merger possess 71% of the voting shares, one can be certain that the merger resolution will be passed.

However, the number of votes cast against the merger will be of importance to the court instance which, according to the Cayman Islands laws, will make a ruling on the fair value of the shares to be repurchased, should the shareholders and the Company's management team be unable to agree on one, and of relevance for the out-of-court dispute settlement at the Company's initiative. The more votes against the proposed resolution, the higher are the chances of minority shareholders to win a satisfactory court ruling or to be offered a favorable price by the majority shareholders initiating the merger – especially seeing as a minority shareholder of Russian-based oil service company Integra established a precedent in the same jurisdiction where EDC is registered, winning a court ruling to increase the management buyout price by 24% in early October 2015.

Excerpt from the EDC Shareholder Circular on the proposed merger and extraordinary meeting:

HOLDERS OF GLOBAL DEPOSITARY RECEIPTS ("GDRS") WISHING TO EXERCISE THE RIGHT TO DISSENT MUST SURRENDER THEIR GDRS TO THE BANK OF NEW YORK MELLON (THE "DEPOSITARY"), PAY THE DEPOSITARY FEES (CONSISTING OF UP TO US\$0.03 PER GDR SURRENDERED, A CABLE FEE OF US\$17.50 AND ANY APPLICABLE TAXES OR GOVERNMENTAL CHARGES) AND BECOME SHAREHOLDERS BY 7 A.M. (EST) ON TUESDAY 10 NOVEMBER 2015. THEREAFTER, SUCH FORMER GDR HOLDERS MUST COMPLY WITH THE PROCEDURES AND REQUIREMENTS FOR EXERCISING THE RIGHT TO DISSENT FROM THE MERGER UNDER SECTION 238 OF THE CAYMAN COMPANIES LAW. THE DEADLINE FOR RECEIPT OF CANCELLATION INSTRUCTIONS BY THE DEPOSITARY IS 7 A.M. (EST) ON FRIDAY 30 OCTOBER 2015.

HOWEVER, A GDR HOLDER MAY, IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE DEPOSIT AGREEMENT, DELIVER TO THE DEPOSITARY VOTING INSTRUCTIONS IN RESPECT OF SOME OR ALL OF THE SHARES REPRESENTED BY ITS GDRS BY 12 NOON (EST) ON FRIDAY 6 NOVEMBER 2015, WHEREUPON THE DEPOSITARY SHALL USE ITS REASONABLE ENDEAVOURS TO VOTE SUCH SHARES IN ACCORDANCE WITH SUCH VOTING INSTRUCTIONS AT THE EXTRAORDINARY GENERAL MEETING ON 13 NOVEMBER 2015.

To ensure correct understanding of the opportunities and possible actions in relation to the proposed Merger and the extraordinary shareholders' meeting, we recommend that the EDC shareholders / GDR holders refer to the EDC Shareholder Circular on the proposed merger and the extraordinary meeting at: <http://www.eurasiadrilling.com/media-centre/news-releases/2015/10/12/shareholder-circular-on-proposed-merger-and-extraordinary-general-meeting/>.

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For questions and/or comment, please contact us at: +7 (495) 510-5306 or via email: [maksimov@ipa-moscow.com](mailto:maksimov@ipa-moscow.com)