



Sibir Energy plc

Annual Report & Accounts
for the Year Ended 31 December 2003

“Our Western-Russian profile has overcome challenges in the past and we are confident it will continue to deliver growth for our shareholders as we emerge from the latest challenge and look forward to many positive developments in the months ahead.”

Report of the Chairman and Chief Executive

Key events in summary

As 2003 drew to a close the Company's health was in the best state it had been in since its incorporation in 1996. The huge undertaking of developing the Salym fields under *de facto* Shell's operatorship was progressing at full speed. What had appeared to be serious challenges to the validity of our licences at Salym had been dealt with and were behind us. Moscow Oil and Gas Company (MOGC) was established, enabling us to embark upon a trading operation from which we expected to make substantial profits and transform the financial performance of the Company. These achievements had restored the stockmarket's confidence in the Company's underlying value and the share price was strong as the year closed, and strengthened thereafter. With all of this behind us we were devoting time to looking ahead and planning the further expansion of the Company.

Then in April 2004 your Board discovered that third parties who owed a duty of care to the Sibir group had procured the dilution of our interest in Sibneft-Yugra, which interest Sibir had contributed for its 45% stake in MOGC. The impairment in Sibneft-Yugra's value resulting from this dilution threatened to end our involvement in MOGC, the 'knock on effect' of which could have had very serious consequences for the Company. As you are all only too well aware, we found it necessary to suspend trading in our ordinary shares and convertible loan stock until we were able to get a clear picture of the nature of the actions which

had resulted in the impairment. We address the resumption of trading at the end of our report.

Clearly, restitution of our interest in Sibneft-Yugra is our ultimate goal and your Board is wholly committed to achieving this objective. We have received legal opinion that the actions taken to effect the dilution were illegal under Russian law and we are confident therefore that we will ultimately achieve restitution of the stake in Sibneft-Yugra. Initially, however, preservation of the rest of our assets from any adverse 'knock on effect' of this impairment had to be the primary objective. Simply translated, this meant maintaining our stake in MOGC and ensuring that we continue to be able to meet our financial commitments in respect of the development of the Salym fields.

We are pleased to report that our stake in MOGC has been preserved as described in greater detail below, and that we are confident we will be able to meet our obligations at Salym.

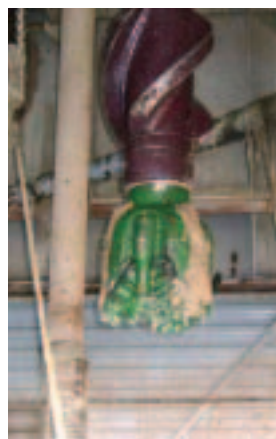
Our primary objective achieved, we have commenced action to restore us to our rightful position in Sibneft-Yugra. The dilution process perpetrated against us was primitively disingenuous. These unscrupulous actions were prevalent in the early 90's and were believed by professional business managers in Russia to have been eradicated. While we do not underestimate the task facing us, we are confident that our actions will be successful, especially in the context



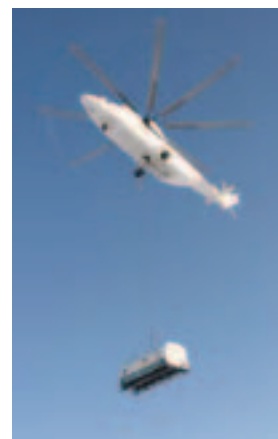
Above: Oil rig at Well pad 20 in West Salym licence.



Above right: First well spudded at West Salym on 30 April, 2004.



Above right: Airlift of housing units into SPD field camp (right).



of the anti-corruption policies of the present Russian administration. You will appreciate that in our situation we do not intend to broadcast the timing or nature of our restitution actions.

The development at Sibneft-Yugra has been a painful experience for the Company. That pain, however, has been ameliorated by two things which maintain the Company's faith that it can do business in Russia. First, the support and loyalty we have had from our fellow shareholder in MOGC, Central Fuel Company ("CFC"), a wholly owned company of the City of Moscow, and the Mayor of Moscow, Yuri Mikhailovitch Luzhkov; both have been express in their condemnation of these actions. Their patience in allowing us time to substitute our contribution to MOGC, thereby maintaining our stake, has been a real demonstration of their trust in us and their business integrity. Second, the absolute commitment we have had from our main shareholder, Chalva Pavlovitch Tchigirinski. At a time when most people would be looking to spread risk he is taking steps to increase his exposure to Sibir.

Unfortunately we must publish this report to you before we can elaborate on the nature of his commitment, but announcements which will justify these remarks will be made in the very near future.

In the following paragraphs we report in detail on the various segments of our business.

Salym Fields

Shell exercised its right to buy back into Upper Salym in December 2003 and therefore the Salym fields are once again consolidated into one development with one operator, Salym Petroleum Development N.V. ("SPD"). Up to the end of 2003 Sibir had spent approximately \$50 million as sole operator of Upper Salym. We will recover approximately 50% of this from Shell.

From basically a standing start in January 2003 it is not an over-estimate to say that the progress to full development at West Salym at the time of writing is enormous. Since that date Sibir and Shell have together, on a 50/50 basis, spent over \$166 million on the West Salym project.

This has been spent on the construction of a communication corridor extending to 50 kilometres, winter roads extending to 112 kilometres, 3 well pads, a 110 kilowatt power supply, a 35 kilowatt infield power supply, preparation of the territory for a central processing facility, a first drilling rig and three development wells, the rigging-up of a second drilling rig, preparation for rigging-up of a third drilling rig, central camp facilities, tendering and contracting for most long lead items, feasibility studies and design works for development of the fields, facilities and export pipeline.

Drilling began on schedule in West Salym at the end of April 2004. The first well drilled encountered the oil bearing formations on prognosis. To optimise efficiency, wells will be completed to target depth in batches of four. Literally,



Above and above right:
MOGC's Moscow Oil Refinery.

Right: Refinery control room.

as we sign off this report, we can report to you that the first exploration well at Upper Salym has been spudded. We have high hopes that this will prove up a bonus structure identified during Sibir's tenure at Upper Salym. In total, over the next three years 4 rigs will drill 213 oil wells and 144 water injection wells. Oil production will be evacuated by a 90 kilometre pipeline from the fields to the Transneft system, with a back-up rail terminal evacuation option from Salym village. First oil production from the Salym fields is forecast for late 2005, but such is progress that we will not be surprised if production is accelerated.

Over 1,400 people are now employed in the joint venture company SPD. Eighteen months ago the equivalent figure was less than 25 and this gives some idea as to the increase in scale of the operation.

Moscow Oil and Gas Company

We have worked for four years on developing the idea of creating a new integrated group of companies between ourselves and the City of Moscow. The first step is the creation of MOGC, into which both shareholders have or will contribute oil sector assets. For Sibir, being a shareholder of MOGC has three attractions. First, it provides Sibir with access to refining capacity for the large volumes of domestic market crude from its oil producing assets and shelters it from low domestic oil prices. Second, it enables Sibir to trade and profit from its own refined

product. Third, it allows Sibir and MOGC to secure supply for its gasoline retail network, which in turn enables the expansion of the network to be planned.

As already reported to you in the half-yearly accounts to 30 June, 2003, MOGC was created on 31 May, 2003 as a joint venture company between Central Fuel Company ("CFC"), a company wholly owned by the City of Moscow, and Sibir. CFC contributed its downstream assets, including its shareholding in the Moscow Refinery and distribution network. In turn, Sibir contributed its share in the Sibneft-Yugra joint venture, the licenceholder of the Priobskoye oil field development in Western Siberia. The contributions gave the City 55% of the shares of MOGC and Sibir 45%.

Following the discovery in April 2004 of the improper third-party dilution of Sibir's shareholding in Sibneft-Yugra as already referred to, the Boards of CFC, MOGC and Sibir agreed to preserve the concept of MOGC with CFC and Sibir as the shareholders pursuant to their mutual desire to integrate their respective downstream and upstream oil sector assets. They also agreed that Sibir would temporarily substitute the diluted Sibneft-Yugra assets with other Sibir assets, cash or ordinary shares in Sibir. This substitution process entailed obtaining independent valuations of both Sibir's assets and the assets already contributed to MOGC by CFC. This process was completed and the valuations were received by the Supervisory Board of MOGC.



Above left: Existing MTK outlet and (left) refinery loading terminal and

Above: Schematics for new MTK outlets.

At a meeting of the Supervisory Board of MOGC on 17 June, 2004, MOGC unanimously approved a proposal from Sibir that Sibir, in subscribing for its 45%, would substitute its original contribution of 50% of Sibneft-Yugra by contributing, at Sibir's option, oil sector assets of Sibir (in accordance with the valuations) or the equivalent in cash, rather than the issue of new Sibir shares. This agreement to issue other assets of Sibir or cash will now be finalised and documented before the end of July, and the terms of the substitution will be announced in due course.

The vision of creating a vertically integrated oil group by combining in the same group the upstream assets of Sibir and the downstream assets of CFC has stood the test of time. MOGC remains central to Sibir's vision of providing a domestic Russian outlet for Sibir's increasing oil production in the years ahead and the other benefits already referred to in detail.

Magma

During 2003 the Magma fields provided Sibir with its main source of cash flow. Our dependence on Magma is now lessened due to the profits from oil products trading which we are earning in 2004.

Financial Results

The Group continued to make losses in 2003 (£13 million)

as administrative expenses (£7.7 million), the share of the operating loss in SPD (£7.8 million) and other net costs (£1.2 million) together exceeded gross profit of £3.7 million.

The impairment in value in our interest in Sibneft-Yugra is reflected in a prior year adjustment, as the act which caused the impairment occurred in 2002. As a matter of prudence, the provision in respect of this impairment – of approximately £21 million – is the full carrying cost of Sibir's investment in Sibneft-Yugra. As already mentioned, we are confident that this provision will be reversed following a successful outcome to our actions for restitution of our 50% interest in Sibneft-Yugra.

Funding

During 2003 cash flow generated by the Company was supplemented from the conversions of loan notes amounting to £2.9 million and from a placing of 150 million shares for cash for a total of £24 million, less share issue expenses of £1.3 million. Part of these funds was applied in the funding of the Upper Salym development and the remainder in working capital.

The biggest funding challenge for Sibir in 2004 is to meet the obligations in connection with funding our share of the Salym fields development. To date we have invested over \$138 million in this project and expect to invest a further



Above: Sand pit activity during SPD Road Building.

Above and right: Construction of the Salym Communications Corridor Road (Comcor).

\$220 million approximately to fulfil our estimated share of development costs. Our preference is to finance our share by way of project and trade finance. We are in advanced discussions about a project/trade finance package with a number of banks which have indicated a desire to participate in the project. We are therefore very confident that in the course of the next several months we will complete the financing of Salym.

Future and Conclusion

The adverse events which were revealed in April of this year were unpleasant and a temporary set back. They needed to be dealt with sensibly and without panic or rash emotional reaction. We believe our plan of action is soundly based and are confident in a successful outcome to our restitution actions.

We are acutely aware of the need to analyse the current political policies towards private enterprise and investment in Russia. We are encouraged by the actions of the current administration and with the guidance of our main shareholder we are seeking to position ourselves in such a manner that we can benefit from our well balanced Russian and international shareholder mix and the transparency of our business conduct. This positioning is producing positive results and we hope to be able to disclose more to you in this connection shortly. For the

moment all we can say is that we expect to emerge from our earlier unpleasant experience in a stronger state and insulated against any repetition of the experience.

Our financial advisers are in discussion with AIM Regulation at the London Stock Exchange about the resumption of trading. We are advised that it is essential that we ensure there is no false market in the shares at the time of resumption. A premature resumption of trading in the absence of full information about the immediate plans which the Company intends to present to shareholders in July would run the risk of just such a false market in the shares. Because we are expecting to make material announcements over the next few weeks we expect that resumption of trading on AIM will not occur until August.

Our Western-Russian profile has overcome challenges in the past and we are confident it will continue to deliver growth for our shareholders as we emerge from the latest challenge and look forward to many positive developments in the months ahead.

“It is not an overestimate to say that the progress to full development at Salym is enormous.”



Above left: Drill rig at Well pad 20.

Above: Christmas Tree at the K1 pad in Upper Salym.

Operations Review

Salym Group

The Salym group of fields is located in the Khanty-Mansiysk Autonomous Okrug in Western Siberia and is operated by Salym Petroleum Development (SPD), a 50/50 joint venture between Sibir's subsidiary OAO Evikhon ('Evikhon') and Shell's Salym Development B.V. ('SSD'), a member of the Royal Dutch Shell Group. The Salym fields consist of Upper Salym, West Salym and Vadelyp.

Upper Salym

In order to preserve the relevant license agreement, in 2001 Sibir and Shell agreed that Evikhon would develop Upper Salym on a sole-risk basis. Evikhon progressed development of the field through December 2003, when Sibir and Shell announced agreement to restore Upper Salym to SPD with effect from January, 2004.

In 2003, Evikhon produced from Upper Salym 168,778 barrels of oil. Development work in 2003 focused on transportation; an oil-loading rail terminal (OLT-1) in Salym Village was constructed for road-to-rail transport of Upper Salym crude. OLT-1 is designed to accept tanker truck shipments from the site, and is equipped with two oil loading units. It has three 63 m³ storage tanks and a total delivery capacity of 1,000 m³ per day. In addition, work neared completion on OLT-2, designed to transfer crude from pipeline to rail tankers. Evikhon completed construction of a 25 km-long pipeline from the field, and rail sidings were built capable of loading 8 rail tankers at a time.

Design work was completed on the associated tank farm and loading units at the rail terminal, which is designed to have a loading capacity of up to 3,500 m³ per day. In addition to the 5 wells drilled in 2002, in 2003 Evikhon drilled one well at Pad-1 to a depth of 2,511 meters. Pad-23 was reconstructed with the plan of making it a central facility site for the Upper Salym field and one 1,000 m³ crude storage tank was constructed.

Now under SPD's operatorship, development at Upper Salym continues and drilling of an exploration well from Pad-2 is planned to begin in June 2004 (the well was spudded as we sign off this report). The drilling rig will then be moved to the nearby Pad-1 to drill 16 development wells before May 2005.

West Salym and Vadelyp

As noted previously, SPD and its shareholders, Sibir's Evikhon and Shell's SSD, on 16 September 2003, announced the approval of a \$1 billion plan for the development of the Salym Fields. With the approval commenced the work programme for the entirety of the Salym group, with an emphasis on building infrastructure to develop first the largest and most economic reserves.

The SPD 2003-2005 Work Program contemplates early construction of major field infrastructure facilities in West Salym to ensure start of commercial oil production late in 2005. Vadelyp will be developed at the next stage with first wells in 2006.



Rig-raising at West Salym Well pad 20.



The first well in West Salym was spudded on schedule on 30 April 2004 at well pad K-20 and encountered the oil-bearing reservoirs as prognosed. Two more wells have been drilled in May and June. To minimise drilling time the wells will be completed in oil-bearing reservoirs in batches of four. In total, 20 wells will be drilled from K-20. It is anticipated that each well will be drilled in an average of 15 days. The average measured depth of vertical wells will be 2,300 m and that of the directional wells, 2,700 m. A total of 26 well pads will be constructed in West Salym.

The average daily production of each well is expected to be 500 barrels per day, and daily production of 120,000 barrels per day is anticipated from West Salym by 2009.

Development of the infrastructure to support the wells is progressing rapidly. Taking advantage of the winter freeze, SPD in January commenced work on the first stage of the Communications Corridor (ComCor), completing 50 km of the planned 90 km length. The corridor will connect the West Salym, Vadelyp and Upper Salym License Areas by roads and will provide access to the Tyumen-Nefteyugansk highway. The road provides all-year access between Pad-23 in Upper Salym and the Central Processing Facility ("CPF") being constructed in West Salym. As is the intention with other aspects of the field development, with the road construction, SPD introduced to West Siberia a new technology, employing a specially-woven

geotextile material to strengthen the road base and prolong its useful life.

CPF construction is under way. The CPF will include an oil treatment facility to remove water and stabilise crude oil to meet specifications upstream of the oil-metering unit and oil shipment pumps. The CPF will also incorporate a water disposal system and a heating system that prevents freezing of tanks and vessels in low temperatures.

Two 110/35/6 kV transformer substations have been built, a 20-kilometre power line has been run to it, and two 1000 m³ tanks for diesel and water have been installed. A field camp, two warehouses of 450 m² and 700 m² and a helipad for helicopters to land in the event of emergency have also been built.

A large volume of survey work and seismic exploration was carried out during the winter period of 2003-2004: SPD completed a 500 km, 2D seismic survey and engineering and geodetic survey of the operations base, of power line and oil gathering system routes and other facilities in West and Upper Salym.

The export pipeline route from West Salym to Yuzhny Balyk booster station, a tie-in point to the Transneft system, was surveyed, and construction of the 90 km pipeline will begin in early 2005. Not less than one third of Salym crude will be exported, with the remainder sold and processed in the Russian domestic market.



Above and right: Construction of fuel tank at Salym Central Processing Facility (CPF).



Above: Oil rig at Well pad 20 in West Salym licence.



Above: First spudding of West Salym on 30 April.

In total, 213 producing wells and 144 water injection wells are planned to be drilled in the Salym group before 2010.

Magma Group

Yuzhnoye Field

Magma Oil Company, which is 95% owned by Sibir, operates the Yuzhnoye oilfield in West Siberia. Magma's production from Yuzhnoye in 2003 was 1,657,411 barrels of oil, representing an average of 4,540 barrels of oil per day ("bopd"). Total sales were 1,750,000 barrels, of which approximately 25% was exported. The remainder was sold domestically, with another 25% of the total being processed at the Moscow Refinery and marketed as products.

Production continues from 32 oil wells, with 17 water injection and 9 water source wells used to provide reservoir pressure support. An \$8 million development programme continues with focus on improving production, accommodation and water injection facilities. The completion of this programme will support an increase in production to 6,500 bopd. Also in 2003, we completed the requisite regulatory process that will permit us to restart development drilling planned for the second half of 2004. We plan on drilling 5 development wells in 2004 and another 12 in 2005.

Orekhovskoye Field

As disclosed previously, upon completion of the exploration program at Magma's Orekhovskoye oil field, it became evident that production would be uneconomic. Accordingly, in 2003 we commenced the procedure to relinquish the license for that field. As a result, exploratory wells were plugged and well sites restored.

The Group's interest in commercial reserves of oil as at 1 January 2003 and 31 December 2003 are included in the unaudited table below:

Operated assets

UK classification (a)	P1 [mboe]	P2 [mboe]	P1 + P2 [mboe]
Russia – Magma fields			
At 1 January 2003	29,676	9,084	38,760
Production	(1,657)	–	(1,657)
At 31 December 2003	28,019	9,084	37,103

(a) These reserve calculations are based upon original engineering reports compiled in accordance with internationally recognised Society of Petroleum Engineers standards and updated internally by Sibir engineers.

Russian classification (b)	C1 [mboe]	C2 [mboe]	C1 + C2 [mboe]
Russia – Upper Salym			
At 1 January 2003	36,074	12,990	49,064
Test production	(169)	–	(169)
At 31 December 2003	35,905	12,990	48,895
Total Operated assets at 31 December 2003	63,924	22,074	85,998

Non-Operated assets

Russia – West Salym & Vadelyp

At 1 January and 31 December 2003	324,861	116,906	441,767
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Russia – Priobskoye

At 1 January 2003			
– as previously reported	669,305	219,224	888,529
Prior Year adjustments (i)	(669,305)	(219,224)	(888,529)
At 1 January 2003 and 31 December 2003	–	–	–
Total Non-Operated assets at 31 December 2003	324,861	116,906	441,767

(b) The reserve calculations for the Salym fields reserves are based upon calculations by Shell Petroleum Development.

Total Operated and Non-Operated assets at 31 December 2003

	388,785	138,980	527,765
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(i) The prior year adjustment in respect of the Priobskoye fields is explained in detail in the report of the chairman and chief executive and also in note 1 to the financial statements.



Right: Well pad 20 and Central Processing Facility.



Above: West Salym.

Financial Review

Production

The Group's production for 2003 was 1,826,189 bbls, (2002: 1,838,388 bbls) comprising Magma's production of 1,657,411 bbls (2002: 1,817,700 bbls) and Evikhon's production of 168,778 bbls (2002: 20,688 bbls).

Turnover and Cost of Sales

Turnover for 2003 amounted to £17,376,000 compared to £17,870,000 in 2002. Sales of crude oil and oil products in 2003 were 1,474,053 bbls and 421,005 respectively (2002: crude oil 1,643,500 and oil products 87,318 bbls).

The Group's gross profit excluding charges for decommissioning and depletion in 2003 was £5,626,000 compared to £8,871,000 for 2002, a fall of 37%.

This is primarily due to the following factors:

- A substantial decrease in volumes of crude oil exported by Magma due to temporary pipeline closures by the State monopoly Transneft
- Weak domestic crude oil prices in the first half
- High start-up operational costs at Upper Salym
- Increases in export duty and mineral extraction tax of 31% and 22% respectively
- Increase in lifting costs as a result of inflation and a stronger rouble.

The decrease in gross profit margin would have been greater had it not been for the significant improvement in gross profit margin in the second half of 2003 as a result of an increase in exports of Magma crude oil and the improvement of crude oil domestic prices recorded in this period.

Administrative and General Expenses

The Group's administrative and general expenses in 2003 were £7.7 million compared to £9.1 million in 2002 (excluding discontinued operations). After excluding from these figures the effect of foreign exchange and other expenses/(income), the Group's administrative expenses for 2003 have increased by 1% on the prior period.

Loss for the Financial Year

The operating loss before share of operating loss from the SPD joint venture was £4.0 million compared to £3.8 million in 2002 (excluding discontinued operations). Administrative expenses (£7.7 million), the share of operating loss in SPD (£7.8 million) and other net costs (£1.2 million) together exceeded gross profit of £3.7 million, resulting in a net loss for the Group in 2003 of £13 million.

The Group's share of losses from SPD reflect the increasing activity of this joint venture following Sibir and Shell's decision to proceed with full development of the Salym group of oilfields.

Right: Rig at Magma and power station at Salym CPF.



Below: Diesel and water tanks at Salym CPF.



Below and right: Construction of the Central Processing Facility.



Interest expense

The group's net interest expense in 2003 was £1.8 million compared to £1.9 million in the previous period (excluding discontinued operations).

Additions to Working Capital

During 2003 a total of 25,200,281 new ordinary shares of 10p each were issued as a result of conversion of loan notes meaning that £2.9 million is no longer payable by the Company.

On 24 October 2003 and 10 November 2003, 71,500,000 and 78,500,000 respectively new ordinary shares of 10p were issued for cash at 16p per share for a total realisation of £24.0 million less share issue expenses of £1.3 million.

Prior Year Adjustment

The impairment in value in our interest in Sibneft-Yugra is reflected in a prior year adjustment, as the act which caused the impairment occurred in 2002. As a matter of prudence, the provision in respect of this impairment – of approximately £21 million – is the full carrying cost of Sibir's investment in Sibneft-Yugra.

Net Assets

The net assets of Sibir, excluding minority interests and the effect of the prior year adjustment, increased by £7.4 million

during 2003. This change reflects the placement of new ordinary shares which raised £22.7 million (net of expenses) in the final quarter of 2003 offset by the losses sustained by the Group of £13 million.

Financial Instruments

The Group's financial instruments comprise borrowings, cash and liquid resources, and various items, such as trade debtors, and trade creditors which arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. It is, and has been throughout the year under review, the Group's policy that there is no trading in financial instruments. The main risks arising from the Group's financial instruments are foreign currency risk, oil price risk, interest rate and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised as follows under the following two headings:

Foreign Currency Policy

Sibir's revenue is largely received in United States dollars. Significant protection from movements in exchange rates results from the loans which are repayable in United States Dollars. Sibir faces certain currency risks relating to its Russian operations. The balance of these revenues are received in roubles following sales to the Russian domestic



Salym village is a community of 5,500 located 30km east of the Salym fields. SPD contributes to the social and economic development of the region by participating in social education and charity programmes including the donation of medical equipment to Salym hospitals and computers to local schools.

markets. As most development, production and taxation expenditures are in roubles the risk from variations in the value of the rouble is minimal. Sibir continues to transfer funds to and from Russia without incident or impediment.

Interest Rate and Liquidity Policy

The Group finances its operations through trade finance and convertible loan stock. In 2000 the Company issued £20 million of 15% convertible loan stock which was redeemable on 30 June 2002. As at 31 December 2003 a total of £19,172,874 had been converted into ordinary shares, £102,000 had been redeemed for cash and the remainder of £725,126 had rolled over into 11% convertible loan notes redeemable on 30 June 2004. Since 31 December 2003, a further £48,200 of these outstanding loan notes had been converted into new ordinary shares. The remaining convertible loan notes will be redeemed by 30 June 2004.

Going Concern

After making enquiries and considering the adequacy of the disclosures made in Note 1 of the Financial Statements, the directors have a reasonable expectation that the group has adequate resources to continue its operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

William L S Guinness

Chairman
30 June, 2004

Henry O Cameron

Chief Executive Officer
30 June, 2004

Corporate Governance

Statement by the Directors on compliance with the Combined Code

The Directors support the principles of good governance. Whilst not mandatory for an AIM company, the Directors have implemented, where practicable for a company of this size and nature, the main provisions of the principles of good governance and code of best practice under the Combined Code and are reviewing the requirements under the New Combined Code.

The Directors are pleased to report that the Company has been in full compliance throughout the year with the provisions set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance, except that:

- per A.1.3 the Board does not have a formal policy for the directors to obtain independent professional advice at the Group's expense.
- per A.2.1 the Company does not have a senior independent non-executive director.
- per A.5.1 the Company has not formed a Nomination Committee with responsibility to propose candidates for appointment to the Board. Whilst the Board recognises the requirement of the Code to form a Nominations Committee, the Board is of the view, given the current size of the Company and of the Board, that such a Committee is not required at present. The need for such a Committee will continue to be reviewed at least annually.
- per B.1.4 the current directors' remuneration is not largely performance-based. The Board recognises the need to establish a clear policy to include performance-related elements as a significant proportion of the total remuneration package of the executive directors.
- per B.2.1 the remuneration committee does not solely comprise independent non-executive directors.
- per D.2.1 the Company has not complied with the Turnbull guidance.

The Board believes that at present it is not necessary for the Company to comply with the requirements of the Combined Code in the above instances due to the current size of the Company. The Group plans to move to full compliance in the foreseeable future.

A statement of directors' responsibilities in respect of the financial statements is included on page 22. Below is a brief description of the role of the Board and its Committees followed by a statement on the Group's system of internal control.

The Workings of the Board and its Committees

The Board

At 31 December 2003 the Board comprised two executive directors and five non-executive directors, whose details are included on pages 20 and 21. The independent non-executive director who served throughout the year was Mr. Gregory.

Mr. Milstein and Mr. Berry resigned on 8 September 2003 and 30 October 2003 respectively.

Mr. Paul Gregory resigned as a director on 3 February 2004. Mr. Stuard Detmer and Mr. Evgeny Savostyanov were appointed as an executive director and a non-executive director respectively of the company also on 3 February 2004.

The Board is responsible to the shareholders for the proper management of the Group. It meets formally four times a year, to review trading performance, set and monitor strategy, examine acquisition and divestment possibilities, approve major capital expenditure projects, corporate overhead costs, significant financing matters and report to shareholders. Matters reserved for the Board are communicated in advance of formal meetings.

The following committees deal with specific aspects of the Group's affairs.

Audit Committee

The Audit Committee, which was chaired by Mr. Berry, until his resignation from the Board on 30 October 2003, comprises all non-executive directors and meets as required but at least two times a year. The Audit Committee provides a forum for reporting by the Group's external auditors. Meetings are also attended, by invitation, by the Finance Director and CEO.

The responsibilities of the Audit Committee comprise recommending to the Board the appointment and remuneration of the auditors, co-ordinating with the auditors on any problems or reservations they may have and the review of interim and annual financial statements before submission to the Board.

Remuneration Committee

The Remuneration Committee is responsible for recommending to the Board the remuneration of the executive directors and the ongoing review of the remuneration and other benefits of the executive directors and senior executives; recommending from time to time the introduction, variation or discontinuance of any benefits, including bonuses and share options and keeping under review the line of succession of senior executives in the Group. The Remuneration Committee comprises all non-executive directors and is chaired by Mr. Stock.

The report on the directors' remuneration, which includes details of the directors' interests in options together with information on service contracts, is set out on pages 16 and 17.

Relations with Shareholders

Communication with shareholders is conducted through correspondence, face to face meetings, press announcements, stock exchange releases and Sibir's website, www.sibirenergy.com. The Report of the Chairman and Chief Executive and Financial Review include a detailed summary of the business and future developments. The Board proposes to use Annual General Meetings ("AGM") to communicate with private and institutional investors and welcomes their participation.

Internal Controls

The Group has not complied with the Turnbull guidance on internal controls and the Board believes that due to the current size of the Company's business it is not necessary to do so. The Company is quoted on AIM and as such is not required to comply with the Turnbull guidance, however, the Directors continue to monitor and review the Group's procedures and policies on internal control.

The Board acknowledges that it is responsible for establishing and maintaining the Group's system of internal control, the effectiveness of which is reviewed on a regular basis. The internal control system is designed to meet particular needs of the Group and the risks to which it is exposed, and by its nature can provide reasonable but not absolute assurance against material misstatement or loss. In view of the size of the Company, the Board does not consider that an internal audit function is required at present, however, the Board intends to keep this under review.

The key procedures which the directors have established with a view to providing effective internal control are as follows:

Management Structure

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each executive has been given responsibility for specific aspects of the Group's affairs. The executive directors together with the key senior executives constitute the Executive Committee which meets as required to discuss operational matters.

Quality and Integrity of Personnel

The integrity and competence of personnel is ensured through supervision and training. High quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through the corporate accounting and procedures manual.

Identification of Business Risks

The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks.

Budgetary Process

Each year the Board approves the annual budget. Key risk areas are identified. Performance is monitored and relevant actions taken throughout the year through the monthly reporting to the Board of variances from the budget, updated forecasts for the year together with information on the key risk areas.

Investment Appraisal

Capital expenditure is regulated by the budgetary process and authorisation levels. For expenditure beyond specified levels detailed written proposals have to be submitted to the Board. Reviews are carried out after the acquisition is complete and, for some projects, during the acquisition period, to monitor expenditure. Major overruns are investigated.

The directors continue to monitor and review the Group's procedures and policies on internal controls on an annual basis.

The internal controls situation is reported to the Audit Committee which has reviewed the effectiveness of the system of internal controls as it operated during the year and reported its conclusions to the Board.

Remuneration Report

Policy

Whilst not mandatory for an AIM Company, the Directors have produced a Directors Remuneration Report. This report is not intended to comply with the provisions of Schedule 7A to the Companies Act.

The Remuneration Committee, which comprises non-executive directors only, was chaired by Mr. Stock throughout 2003. The role of the committee is to make recommendations to the Board within agreed terms of reference on the Company's framework of executive remuneration and its cost and to determine, on their behalf, specific remuneration packages for each of the executive directors including pension rights and any compensation payments. The committee also determines the overall remuneration policy for staff and reviews the recommendations of the executive directors in respect of the annual salary reviews of employees.

Directors remuneration packages are designed to attract, motivate and retain directors of the quality needed and with the appropriate skills and experience. Remuneration packages currently comprise basic salary and pension contributions. The Company has implemented a share options scheme which it recognises as an important element of the remuneration package as employees are rewarded for their contribution to enhancing shareholder value.

The fees of non-executive directors are reviewed periodically to ensure that they are in line with the current practice. Changes are recommended by the Chief Executive and approved by all executive directors. The Company's Articles of Association restrict non-executive directors remuneration to an aggregate of £150,000 per annum or such other sum as the Company, in general meeting, shall from time to time determine.

Annual Remuneration of Executive Directors

The remuneration paid to the directors in the year ended 31 December 2003 is shown in the table on page 17.

Set out below are the annual salaries and employer pension contributions contracted into by the executive directors.

Executive Director	Annual Salary £	Pension Contributions £
H O Cameron	220,000	22,000
A Betsky	92,500	4,625

Directors' remuneration

	Salary	Benefits	Pension Contributions	Fees	Total 2003	Total 2002 (iii)
	£000	£000	£000	£000	£000	£000
Executives						
H O Cameron	220	1	22	–	243	243
A Betsky	93	2	5	–	100	100
Non-executives						
W L S Guinness	–	–	–	40	40	40
C Tchigirinski	–	–	–	15	15	15
K-H Stock	–	–	–	15	15	15
P Gregory	–	–	–	15	15	15
U Haener	–	–	–	15	15	15
Former directors						
V Milstein (i)	–	–	–	10	10	15
N Berry (ii)	–	–	–	11	11	15
	313	3	27	121	464	473

The emoluments of the highest paid director were £221,000 before pension contributions during the year ended 31 December 2003 (2002 – £221,000). Pension contributions of the highest paid director were £22,000 during the year ended 31 December 2003 (2002 – £22,000).

(i) Resigned 8 September 2003

(ii) Resigned 30 October 2003

(iii) Two directors accrued pension benefits during 2002. For 2002 the directors' emoluments totalled £446,000; pension contributions £27,000.

Service Contracts

No director has a service contract of more than one year. The Company is liable to pay compensation for any unexpired period of a contract if it is terminated by the Company.

Directors' Share Options

Details of the Directors' Share Options for the year ended 31 December 2003 are as follows:

Name of Director	01.01.2003 '000	Granted '000	Lapsed '000	31.12.2003 '000	Exercise Price	Exercisable From	Exercisable To
H O Cameron	1,500	–	–	1,500	10p	30.06.2000	09.06.2010
	750	–	–	750	10p	31.12.2000	09.06.2010
	750	–	–	750	10p	31.12.2001	09.06.2010
	3,000	–	–	3,000			

No share options have been awarded or exercised during the year.

Exercise of Options

On 20 May 2003, Mr. Jordan, a former director, exercised 2,250,000 options which were due to lapse on 31 May 2003. The gain made on the exercise of this option was £70,888 before tax. The Remuneration Committee had agreed that Mr. Jordan could retain these options, as they had already vested at the time of his resignation, until 31 May 2003.

Directors' Report

The Directors present their report and the Group financial statements for the year ended 31 December 2003.

Principal activities

The Company is an independent oil and gas exploration and production Company. The Group's areas of oil and gas exploration and production activity are in the Khanty-Mansiysk Okrug in Western Siberia in the Russian Federation.

Results and dividends

The Group's loss for the year amounted to £12,983,000 (2002 – restated loss £32,460,000). The Directors do not recommend payment of a dividend.

A review of the Group's business and prospects is set out in the Report of the Chairman and Chief Executive and Operations Review on pages 1 to 9.

Share Capital

During 2003 25,200,281 new ordinary shares of 10p each were issued as a result of conversion notices being received from convertible loan note holders wishing to convert a total of £2,894,200 of convertible loan notes into shares.

On 24 October 2003 and 10 November 2003 71,500,000 and 78,500,000 respectively new ordinary shares of 10p each were issued for cash at 16 pence per share for a total realisation of £24,000,000 less share issue expenses of £1,267,000.

Exercise of Options

On 20 May 2003 and 24 September 2003 share options of 2,250,000 and 2,250,000 respectively were exercised and 4,500,000 new ordinary shares were issued at the exercise price of 10p per share.

Convertible loan notes

During 2000 the Company raised £20,000,000 by way of an open offer of 15% convertible loan notes. The notes were issued in denominations of £1,000 and were admitted to trading on the Alternative Investment Market of the London Stock Exchange. The notes were originally due to mature on 30 June 2002 and be redeemed for cash if not previously converted or redeemed. Conversion of the loan notes into ordinary shares is at the election of the holder, at any time between 1 August 2000 and the redemption date, at nominal value at a conversion price per ordinary share which is the higher of 10p and 10p plus fifty per cent of the difference between 10p and the average market price of an ordinary share for the thirty dealing days immediately prior to notice of conversion being given by the holder.

On 18 February 2002 the Company held a meeting of the 15% convertible loan note holders. At the meeting approval was granted to extend the term of the notes to 30 June 2004 and to reduce the interest rate payable to 11%. The security held by the loan note holders was also amended to a fixed and floating charge over all of the assets of Sibir.

As at 31 December 2003, a total of £19,172,874 had been converted into ordinary shares. £102,000 had been redeemed for cash and £725,126 had rolled over into 11% convertible loan notes which are being redeemed on 30 June 2004.

Events since the Balance Sheet Date

Sibneft-Yugra

On 19 April 2004 the Board announced that it had been granted the temporary suspension of trading in its' share and convertible loan stock pending clarification of certain arrangements which had taken place at Sibneft-Yugra. A full explanation is detailed in note 28 to the financial statements.

Convertible Loan Notes

Since 31 December 2003 a further £48,200 of convertible loan notes have been converted into 288,643 new ordinary 10p shares in the Company.

Directors

The Directors holding office at the end of the year ended 31 December 2003 had the following interests in the ordinary shares and convertible loan notes of the Company:

	31 December 2003			1 January 2003 or the date of appointment, if later		
	Ordinary Shares	Options	Convertible Loan Stock	Ordinary Shares	Options	Convertible Loan Stock
W L S Guinness	11,981,114	–	–	11,981,114	–	–
H O Cameron	13,214,279	3,000,000	–	13,214,279	3,000,000	–
A Betsky	–	–	–	–	–	–
C Tchigirinski ⁽ⁱ⁾	635,432,588	–	–	635,432,588	–	–
P Gregory	–	–	–	–	–	–
K-H Stock	33,900,000	–	–	33,900,000	–	–
U Haener	9,623,666	–	–	9,623,666	–	–

All the holdings are beneficially held unless otherwise indicated.

⁽ⁱ⁾ Held through the ownership of Bennfield Limited, in which Mr Tchigirinski has an interest.

No Director had any interest in the shares of subsidiary undertakings or any other Group undertakings. There have been no changes to the Directors' interests between 31 December 2003 and 30 June 2004.

Board Changes during 2003

Mr. Vadim Milstein and Mr. Nicholas Berry resigned on 8 September 2003 and 30 October 2003 respectively.

Board Changes during 2004

Mr. Paul Gregory resigned as a director on 3 February 2004. Mr. Stuard Detmer and Mr. Evgeny Savostyanov were appointed as an executive director and a non-executive director respectively of the company also on 3 February 2004.

In accordance with the Articles of Association, Messrs Haener and Stock retire by rotation and, being eligible, offer themselves for re-election.

Messrs Detmer and Savostyanov having been appointed since the last Annual General Meeting, retire from the Board at the 2004 Annual General Meeting. Mr. Detmer being eligible, offers himself for re-election.

Biographical information of Directors

Mr. William L. S. Guinness Non-Executive Chairman

Mr. Guinness, age 64, has been Chairman of Sibir since March 1999, having previously been a Non-Executive Director of Pentex Energy plc and Pentex Oil plc. He is also a member of the Audit and Remuneration Committees. Mr. Guinness is a director of a number of private companies involved in a wide range of commercial activities.

Mr. Henry O. Cameron Chief Executive Officer

Mr. Cameron, age 64, is a Scottish solicitor by profession. Before devoting his full time attention to the oil sector Mr. Cameron founded and was senior partner of Peterkins, a large firm of solicitors in Scotland. Peterkins had clients involved with the former Soviet Union which enabled Mr. Cameron to acquire a rare working knowledge of doing business in Russia. He has had association with the oil sector since the earliest beginnings of exploration in the North Sea. In 1989 he assumed control of the Pentex Oil group of companies, which in turn led to the creation of Sibir Energy plc. Mr. Cameron spends most of his time in the Company's offices in Moscow.

Mr. Alexander Betsky, CA Finance Director

Mr. Betsky, age 34, is a Canadian chartered accountant. Before joining Sibir in July 2000, he worked as a corporate finance executive at Dresdner Kleinwort Benson in Moscow and earlier as an investment banking associate with Bank Menatep in Moscow. Mr. Betsky also has three years of accounting and audit experience with Ernst & Young and Lippman Leebosh April in Canada. He holds a Bachelor of Commerce degree and a Graduate Diploma in Public Accounting, both from McGill University. He is also a member of the Canadian Institute of Chartered Accountants. Mr. Betsky speaks fluent Russian and French.

Mr. Stuard Detmer Director and Manager of Downstream Operations

Mr. Detmer, age 40, has an extensive background in the oil industry, having previously worked with Mobil in the US, Latin America and Russia. He received a Bachelor of Arts degree from Vanderbilt University and an MBA from the Darden School at the University of Virginia. Mr. Detmer speaks fluent Russian and Spanish.

Mr. Karl-Heinz Stock Non-Executive Director and Chairman of Remuneration Committee

Mr. Karl-Heinz Stock, age 51, holds two university degrees in economics. After an initial period in banking he co-founded and was managing director from 1989 to 1996 of the S & T Group, a Moscow based real estate company. During this formative period in Russia's history Mr. Stock also co-founded Juist, one of the first private law firms in Russia, AZS Service, one of the first private oil and gas station development companies in the Moscow area, the Moscow Logistics Park, the first company specialising in the development of warehouses in the Moscow area. Mr. Stock speaks fluent English.

Mr. Chalva P. Tchigirinski Non-Executive Director

Mr. Tchigirinski, age 54, is the representative of the largest shareholder in Sibir. In this capacity he is a director of Yugraneft, a Director of both Evikhon and Salym Petroleum Development BV. He is also President of both Moscow Oil Company and Central Fuel Company (which controls the Moscow refinery) neither of which are in competition with Sibir. His interests in the sector include a key role in BP's impressive fuel retail network in Moscow. Mr. Tchigirinski speaks fluent English.

Mr. Urs Haener Non-Executive Director

Mr. Haener, age 51, holds two university degrees in business administration and law from the University of St Gallen, Switzerland. Mr. Haener spent his distinguished career in banking. He was Head of Credit Suisse Australia Operations in 1991-1993. In 1993 he became the President and CEO of Credit Suisse (Moscow) Ltd and was from 1996 Managing Director of Credit Suisse First Boston. In late 1997 he joined Republic National Bank as CEO of Moscow subsidiary which was taken over by HSBC Bank in 1999. Until June 2001 he was the President and CEO of HSBC's Russian subsidiary. In July 2001 he started his own consulting business in Russia. Mr. Haener is conversant in several languages.

Mr. Evgeny Savostyanov Non-Executive Director

Mr Savostyanov, age 52, has held roles which include being a First Vice President of Moscow Oil and Gas Company, a joint venture between Sibir and the Moscow City Government, leading the Supervisory Board of the Kemerovo Mining Company, Deputy Head of the Russian Presidential Administration, and the Deputy Head of the Moscow City Government. He received a PhD in Geology from the Moscow Mining Institute and is fluent in Russian and English.

Substantial Shareholders

At 30 June 2004 the Company had been notified of the following interests of 3% or more in the nominal value of the Company's ordinary shares.

	No. of shares	%
Bennfield Limited	635,432,588	36.38
Charlemagne Capital	90,396,574	5.17
Prospector Limited	79,990,704	4.58
Angelica Trading Limited	56,324,784	3.22

Creditors Payment Policy

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its individual suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2003, the Company had an average of 52 days' purchases outstanding in trade creditors.

Conversion to IFRS

To satisfy its reporting obligations, Sibir will be drawing up its financial statements for 2005 and subsequent years in accordance with International Financial Reporting Standards.

Auditors

Ernst & Young LLP have expressed their willingness to continue as auditors and their reappointment will be proposed at the Annual General Meeting in accordance with Section 385 of the Companies Act 1985.

By order of the Board

A Harrison
Secretary

Date: 30 June 2004

Statement of Directors' Responsibilities in Respect of the Financial Statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of Sibir Energy plc

We have audited the Group's financial statements for the year ended 31 December 2003, which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Reconciliation of Shareholders' Funds, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows, and the related notes 1 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the AIM Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Report of the Chairman and Chief Executive, the Operations Review, the Directors Report, the Financial Review, the Corporate Governance Statement and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Going concern

In forming our opinion we have considered the adequacy of the disclosures made in Note 1 of the financial statements in respect of the uncertainty as to Sibir's ability to raise project finance for the funding of the development of the Salym fields, and the consequential implications for the Company's and the Group's ability to operate as a going concern. The validity of the going concern basis depends on the successful raising of such project finance. The financial statements do not include any adjustments that would result from failure to secure sufficient funds through the financing negotiations. Our opinion is not qualified in respect of this fundamental uncertainty.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London

30 June 2004

Group Profit and Loss Account

For the year ended 31 December 2003

	Notes	2003 £000	Continuing Operations 2002 £000 [restated]	Discontinued Operations 2002 £000 [restated]	2002 £000 [restated]
Group Turnover	2	17,376	17,870	4,652	22,522
Cost of sales					
Depletion of oil and gas properties	3	(1,645)	(2,410)	(1,030)	(3,440)
Decommissioning charge		(303)	(1,122)	–	(1,122)
Cost of sales		(11,750)	(8,999)	(1,703)	(10,702)
Gross profit		3,678	5,339	1,919	7,258
General and administrative expenses		(7,727)	(9,093)	(256)	(9,349)
Group operating (loss)/profit	4	(4,049)	(3,754)	1,663	(2,091)
Share of operating loss in joint ventures		(7,793)	(3,462)	–	(3,462)
Operating (loss) profit:					
Group and share of joint venture		(11,842)	(7,216)	1,663	(5,553)
Loss on disposal of subsidiary	5	–	–	(3,028)	(3,028)
Impairment loss on joint venture	5	–	(20,988)	–	(20,988)
Loss on ordinary activities before interest and tax		(11,842)	(28,204)	(1,365)	(29,569)
Interest receivable		20			42
Interest payable	8	(1,833)			(1,987)
Loss on ordinary activities before taxation		(13,655)			(31,514)
Tax on profit on ordinary activities	9	(1,723)			(1,228)
Loss on ordinary activities after taxation		(15,378)			(32,742)
Minority interests – equity		2,395			282
Loss for the financial year attributable to the members of the parent company		(12,983)			(32,460)
Basic loss per share (pence)	10	(0.81)			(2.14)
Diluted loss per share (pence)	10	(0.81)			(2.14)

Group Statement of Total Recognised Gains and Losses

For the year ended 31 December 2003

	Notes	2003 £000	2002 £000 [restated]
Loss for the year attributable to members of the parent company	21	(12,983)	(32,460)
Exchange difference on re-translation of net investments and related borrowings	21	(4,148)	(362)
Total recognised gains and losses relating to the year		(17,131)	(32,822)
Prior year adjustment	21	(20,988)	–
Total gains and losses recognised since last annual report		(38,119)	(32,822)

Group Reconciliation of Shareholders' Funds

For the year ended 31 December 2003

	Notes	2003 £000	2002 £000 [restated]
Total recognised gains and losses		(17,131)	(32,822)
New share capital subscribed	20	17,970	12,908
Share premium on shares issued less issue costs	21	8,107	2,284
Total movements during the year		8,946	(17,630)
Shareholders' funds at 1 January (originally £157,423,000 before deducting prior year adjustment of £20,988,000)		136,435	154,065
Shareholders' funds at 31 December		145,381	136,435

Group Balance Sheet

At 31 December 2003

	Notes	31 December 2003 £000	31 December 2002 £000 [restated]
Fixed Assets			
Tangible assets	11	173,337	177,939
Other investments	12	6	6
		173,343	177,945
Current Assets			
Stocks	13	631	1,241
Debtors			
amounts falling due within one year	14	10,148	7,938
amounts falling due after more than one year	14	2,854	–
	14	13,002	7,938
Cash at bank and in hand		9,461	3,746
		23,094	12,925
Creditors: amounts falling due within one year	15	(28,313)	(24,031)
Net Current Liabilities		(5,219)	(11,106)
Total Assets Less Current Liabilities		168,124	166,839
Creditors: amounts falling due after more than one year	16	–	(3,619)
Provision for Deficit In Joint Venture	12		
– Share of gross assets		10,648	1,311
– Share of gross liabilities		(11,480)	(5,296)
		(832)	(3,985)
Provision for Liabilities and Charges	19	(1,840)	(1,210)
		165,452	158,025
Minority interest – equity		(20,071)	(21,590)
		145,381	136,435
Capital and Reserves			
Called up share capital	20	174,654	156,684
Share premium account	21	39,256	31,149
Capital redemption reserve	21	14,396	14,396
Profit and loss account	21	(82,925)	(65,794)
Equity shareholders' funds		145,381	136,435

H Cameron
Director
30 June 2004

A Betsky
Director
30 June 2004

Company Balance Sheet

At 31 December 2003

	Notes	31 December 2003 £000	31 December 2002 £000 [restated]
Fixed Assets			
Tangible assets	11	35	3,213
Investments	12	105,450	105,450
		105,485	108,663
Current Assets			
Debtors:			
amounts falling due within one year	14	2,142	3,497
amounts falling due after more than one year	14	50,163	26,370
		52,305	29,867
Cash at bank and in hand		7,250	239
		59,555	30,106
Creditors: amounts falling due within one year	15	(23,829)	(12,254)
Net Current Assets		35,726	17,852
Total Assets Less Current Liabilities		141,211	126,515
Creditors: amounts falling due after more than one year			
Provisions for liabilities and charges	16	–	(3,619)
	19	(811)	(811)
		140,400	122,085
Capital and Reserves			
Called up share capital	20	174,654	156,684
Share premium account	21	39,256	31,149
Capital redemption reserve	21	14,396	14,396
Profit and loss account	21	(87,906)	(80,144)
Equity shareholders' funds		140,400	122,085

H Cameron
Director
30 June 2004

A Betsky
Director
30 June 2004

Group Statement of Cash Flows

At 31 December 2003

	Notes	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Net cash flow from operating activities	22(a)	(4,722)	(712)
Returns on investments and servicing of finance	22(b)	(1,108)	(1,583)
Taxation	22(c)	(823)	(927)
Capital expenditure and financial investment	22(d)	(17,869)	(13,956)
Acquisitions and disposals	22(e)	–	7,096
Net cash outflow before financing		(24,522)	(10,082)
Financing	22(f)	30,237	10,092
Increase in Cash		5,715	10

Group Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes	2003 £000	2002 £000
Increase in cash		5,715	10
Cash outflow to repayment of convertible loan notes		–	102
Cash outflow from repayment of borrowings		3,845	8,007
Cash outflow from finance leases		–	144
Cash inflow from loans		(10,899)	(18,345)
Change in net debt resulting from cash flows		(1,339)	(10,082)
Loans disposed of in subsidiary sold		–	10,838
Exchange differences		2,027	1,146
Other non cash movements		2,894	15,192
Movement in Net Debt		3,582	17,094
Net Debt at beginning of Period		(17,998)	(35,092)
Net Debt at end of Period	22(g)	(14,416)	(17,998)

1 Accounting Policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

In addition to the requirements of the accounting standards, the accounting for exploration and production activities is governed by the Statement of Recommended Practice (SORP) 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' issued by the UK Oil Industry Accounting Committee on 7 June 2001. These financial statements have been prepared in accordance with the SORP's provisions.

Prior year adjustment

Correction of fundamental error 2003

In April 2004 the company discovered that its investment in Sibneft-Yugra had been diluted to less than 1% in 2002 by way of a series of share issues by Sibneft-Yugra which had taken place without the company's knowledge. The discovery of this dilution has led the Directors to conclude that the company's investment in Sibneft-Yugra, the licence holder of the Priobskoye fields, was impaired as at 31 December 2002.

This error has been corrected in the current year financial statements, by restating the prior year comparatives. This restatement has resulted in the recognition of an additional £20.99 million loss on impairment of the investment in Sibneft-Yugra.

The prior year adjustment in the profit and loss account of Sibir Energy plc of £49.86 million is made up of an impairment of its interest in Yugraneft of £34.39 million and a provision against inter-company loans to Yugraneft of £15.47 million.

Going concern

At the date of signing these financial statements, the Company is negotiating a project finance facility of \$220 million for the funding of the Company's subsidiary Evikhon's share of the development costs of its joint venture with Shell Salym Development N.V.

If this financing is not successful and the Group is unable to secure sufficient funding, it may not be appropriate to prepare the accounts on the going concern basis and adjustments would have to be made to adjust the value of the assets to their realisable amount, to provide for any further liabilities which might arise, and to reclassify fixed assets and long term liabilities as current assets and liabilities.

However, the Directors are confident of success of raising project finance, and therefore believe it is appropriate for the financial statements to be prepared on the going concern basis.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings for the year ended 31 December 2003. No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act 1985.

The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Russian business environment

During the year ended 31 December 2003 all of the Company's business was conducted in Russia through its investment in subsidiaries operating in the oil and gas industry. These operations and those of similar companies in Russia, are subject to the economic, political and regulatory uncertainties prevailing in Russia.

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Joint ventures

Entities in which the Group holds an interest on a long-term basis and which are jointly controlled by the Group and one or more other venturers under a contractual arrangement, are treated as joint ventures. In the Group financial statements joint ventures are accounted for using the gross equity method in accordance with FRS 9 "Associates and Joint Ventures".

Turnover

Turnover represents the amounts invoiced by the Group to third parties in the ordinary course of business and is stated net of value added tax and similar levies.

Fixed Assets

(a) Tangible Oil and Gas Assets

The Group follows the "full cost" method of accounting for the costs associated with exploration, appraisal, development and production of oil and gas reserves. Under this method costs are aggregated in geographical cost pools. The costs of acquisition of property (including rights and concessions) and plant and equipment are classified as tangible fixed assets if they relate to proved oil and gas properties. Exploration expenditure on unproved properties is initially classified as intangible assets and is excluded from the tangible cost pools pending determination of the recoverable reserves attributable to the Group's interests.

All costs associated with property acquisition, exploration and development are capitalised regardless of whether they result in commercial discoveries or not. Proceeds from the disposal of oil and gas assets are deducted from the cost pools.

Producing oil and gas assets are depleted by pool, on a unit of production method, in the proportion of actual production for the period to the total remaining commercial reserves. The remaining commercial reserves are those estimated at the end of the period plus production during the period. For depletion purposes only, the cost base include costs of capital assets and anticipated future development expenditure.

(b) Other Tangible Fixed Assets

Other tangible fixed assets are depreciated on a straight-line basis so as to write off the cost less any estimated residual value of each asset evenly over its estimated useful economic life as follows:

- Plant and equipment – between 3 to 10 years
- Leasehold property – over life of lease

(c) Impairment of Fixed Assets

The carrying values of fixed assets are reviewed for impairment in the periods when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is provided for in the current period profit and loss account when the carrying value of the assets exceeds their estimated recoverable amount. The estimated recoverable amount is defined as the higher of the net realisable value and the value in use. The value in use is determined by reference to estimated future discounted cashflows.

Oil and gas reserves

Proven and probable oil and gas reserves are estimated quantities of commercially producible hydrocarbons which the existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs.

Decommissioning provision

Provision for decommissioning of oil and gas production facilities is recognised in the financial statements on commencement of field development on the basis of costs estimated at the balance sheet date in accordance with the local conditions and requirements. Such provision represents the company's share of the estimated liability for costs which will be incurred in removing production platforms and facilities at the end of the commercial production from the field.

Where the time value of money is material, the provision made in the financial statements is for the present value of the estimated future costs. A corresponding tangible fixed asset is also created for the amount equal to the provision when it is first made in the financial statements. This asset is subsequently depleted as part of oil and gas assets in accordance with the depreciation and depletion policy applied to such assets.

Where the provision is discounted, the carrying value of the provision increases each year to reflect the passage of time. This increase is recognised as an annual charge to the current year profit and loss account and is included within interest expense.

Investments

Fixed asset investments in subsidiaries, joint ventures and associates are included in the financial statements at cost less provisions for impairment. All other fixed asset investments are stated in the financial statements at cost less provisions for permanent diminution in value. All current asset investments are stated at the lower of cost and net realisable value.

Lease and hire purchase obligations

Assets held on finance leases and under hire purchase contracts, where the risk and rewards of ownership have been passed to the Group, are capitalised and depreciated in accordance with the Group's depreciation policy. Finance charges included in the total lease obligations are charged to the profit and loss account over the period of the lease at a constant proportion to the capital amount outstanding. Operating lease rentals are charged to the profit and loss account as incurred.

Stocks

Stocks which comprise oil in tanks and pipelines, and materials, are stated at the lower of cost or net realisable value. Overlifts and underlifts are valued at market value and are included in creditors or debtors respectively.

Foreign currencies

(a) Company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

(b) Group

These financial statements use the Pound sterling (£) as the reporting currency. The Company's subsidiary undertakings use the United States dollar (\$) as the reporting currency however the accounting records of these entities are maintained in Russian roubles. The functional currency of the Group's operating companies is the \$ in Russia and the £ in the UK.

The financial statements of the overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date.

The exchange differences arising on re-translation of the opening net assets of the Company's subsidiary undertakings

and quasi-equity long term loans to those undertakings are taken directly to other reserves. All other translation differences are taken to the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Pension costs

The Group contributes to a defined contribution scheme and to personal pension schemes. Contributions are charged to the profit and loss account as they become payable.

2 Turnover and Segmental Analysis

Segmental information

During 2003, the Group operated in one business segment, being that of oil and gas exploration, development and production, and in one geographical segment, being Khanty-Mansiysk Okrug in Western Siberia, in the Russian Federation.

The discontinued operations in 2002 comprised the Group's United Kingdom and Italian activities which were disposed of in May 2002.

During 2002, turnover of £4,648,000 and £4,000 was contributed by the Group's UK and Italian operations respectively. The UK and Italy contributed a loss of £5,695,000 and £24,000 each to the Group's loss before interest and tax of £2,091,000.

Turnover

Destination	2003 £000	2002 £000
Russian Federation	8,650	7,013
Germany	3,926	9,877
USA	2,662	659
Slovakia	1,785	–
Finland	207	–
Ukraine	146	–
UK	–	4,648
Belorussia	–	321
Italy	–	4
Total	17,376	22,522

3 Cost of Sales and Operating Expenses

	2003 €000	2002 €000
Cost of sales	11,750	10,702
Depletion of oil and gas properties	1,645	3,440
Decommissioning charge	303	1,122
Administration expenses	7,009	6,923
Exchange (gains)/losses	(796)	3,433
Other expenses/(income)	1,514	(1,007)

4 Operating Loss

This is stated after charging/(crediting):

	2003 €000	2002 €000
Auditors' remuneration		
– Group audit services*	250	352
– Non-audit services relating to tax and advisory services	21	43
	271	395

* €50,000 (2002 – €50,000) relates to the Company

Depletion and decommissioning of oil and gas properties	1,948	4,440
Depreciation of other tangible fixed assets	244	284
Depreciation of assets held under finance leases	–	107
Total depreciation charge	2,192	4,831
Operating lease rental – land and buildings	183	183
– plant and machinery	–	25
– motor vehicles	–	8

5 Exceptional Items

	2003 €000	2002 €000 (restated)
Recognised below operating profit:		
Loss on disposal of Pentex	–	3,028
Impairment loss on Sibneft-Yugra (Note 1)	–	20,988

6 Staff Costs

Staff costs, including executive directors, were as follows:

	2003 €000	2002 €000
Wages and salaries	2,935	2,887
Social security costs	356	177
Other pension costs	319	391
	3,610	3,455

The average monthly number of employees during the year was made up as follows:

	2003 No.	2002 No.
Management and administration	118	135
Technical and operational	148	199
	266	334

7 Directors' Emoluments

	2003 £000	2002 £000
Aggregate directors' emoluments	437	446
Company contributions to personal pension schemes	27	27

The emoluments of the highest paid director were as follows:

	2003 £000	2002 £000
Emoluments	221	221
Company contributions to personal pension schemes	22	22

No director share options were awarded or exercised in the year. On 15 May 2003, Mr Jordan, a former director, exercised 2,250,000 share options which were due to lapse on 31 May 2003. The gain made on the exercise of this option was £70,888 before tax. The Remuneration Committee had agreed that Mr. Jordan could retain these options, as they had already vested at the time of his resignation, until 31 May 2003.

There are two directors in money purchase pension schemes.

8 Interest Payable and Similar Charges

	2003 £000	2002 £000
Bank interest	21	469
Convertible loan interest	288	1,250
Finance charges on leases	–	13
Other loan interest	1,488	225
	1,797	1,957
Unwinding of discount on decommissioning provision	36	30
	1,833	1,987

9 Tax on Profit on Ordinary Activities

The taxation charge is made up as follows:

	2003 £000	2002 £000
UK corporation tax		
Current tax on profit on ordinary activities before share of associates and J.V. projects	–	339
	–	339
Foreign tax		
Current tax on profits for the year	1,138	889
Total current tax	1,138	1,228
Deferred taxation		
Originating and reversal of timing differences	585	–
	1,723	1,228

Factors affecting tax charge for the period

The tax assessed on the profit on ordinary activities for the period is disproportionate to the standard rate of taxation in the UK. The differences are explained below:

	2003 £000	2002 £000
Loss on ordinary activities before tax	(13,655)	(31,514)
Loss on ordinary activities before tax at the standard UK corporation tax rate of 30% (2002 – 30%)	(4,097)	(9,454)
Effects of:		
Loss on disposal of Pentex group	–	908
Disallowed expenses and non-taxable income	4,658	1,373
Depreciation in excess of capital allowances	480	(277)
Other timing differences	450	469
Current year UK tax losses not utilised	434	2,092
Impairment of loss on joint venture which is not deductible	–	6,296
Lower taxes on overseas earnings	(283)	(1,290)
Overseas tax losses carried forward	–	1,596
Utilisation of prior year unrecognised overseas tax losses	(504)	(485)
Total current tax before share of associates and joint ventures	1,138	1,228

Factors affecting future tax charge

During 2002 the group disposed of its investment in the Pentex Group of companies. In the past this has been profitable and a tax charge has arisen. Future tax charges would therefore be expected to be lower as a result of this disposal.

The Group has tax losses of approximately £14,548,000 (2002 – £16,263,000) arising in the UK that are available indefinitely for offset against future taxable profits. The tax returns for the years ended 31 December 2000, 2001 and 2002 for Sibir Energy plc have yet to be agreed by the Inland Revenue and the tax losses could be reduced when the returns are agreed. The Group also has tax losses of approximately £3,816,000 (2002 – £3,985,000), arising in Russia which are available for offset within the next 5 years to 10 years. Deferred tax assets have not been recognised in respect of these losses because although losses arising in the UK may be used to offset profits arising in certain UK companies, most UK subsidiaries within the same tax group are currently loss-making.

10 Loss per share

The calculation of loss per ordinary share is based on the loss for the year of £12,983,000 (2002 – restated loss £32,460,000).

The weighted average number of ordinary shares in issue during the year was 1,601,282,451 (2002 – 1,519,026,126).

The number of ordinary shares used for basic and diluted loss per share can be reconciled as follows:

	2003	2002
Basic weighted average number of shares	1,601,282,451	1,519,026,126
Dilutive potential ordinary shares:		
Share Options Scheme	4,850,000	9,750,000
	1,606,132,451	1,528,776,126

Potential ordinary shares resulting from conversion of the loan notes and the share options have an anti-dilutive effect and, as such, were excluded from the calculation of diluted loss per share.

11 Tangible Fixed Assets

Group	Leasehold Property £000	Exploration and development costs £000	Plant and equipment £000	Total £000
Cost:				
At 1 January 2003	3,161	192,548	195	195,904
Currency movements	–	(5,998)	–	(5,998)
Additions	–	14,527	2	14,529
Disposals	–	(40)	(39)	(79)
Transfers ⁽ⁱ⁾	(3,161)	–	–	(3,161)
At 31 December 2003	–	201,037	158	201,195
Depreciation:				
At 1 January 2003	–	17,833	132	17,965
Currency movements	–	(2,012)	–	(2,012)
Evikhon free carry adjustment	–	10,073	–	10,073
Provided during the year	–	1,873	16	1,889
Disposals	–	(21)	(36)	(57)
At 31 December 2003	–	27,746	112	27,858
Net book value at 31 December 2003	–	173,291	46	173,337
Net book value at 31 December 2002	3,161	174,715	63	177,939

⁽ⁱ⁾ The transfer represents an advance payment for a lease on a leasehold property and has been re-classified to prepayments in 2003.

Company	Leasehold property £000	Plant and equipment £000	Total £000
Cost:			
At 1 January 2003	3,161	137	3,298
Additions	–	2	2
Disposals	–	(39)	(39)
Transfers ⁽ⁱⁱ⁾	(3,161)	–	(3,161)
At 31 December 2003	–	100	100
Depreciation:			
At 1 January 2003	–	85	85
Provided during the year	–	16	16
Disposals	–	(36)	(36)
At 31 December 2003	–	65	65
Net book value at 31 December 2003	–	35	35
Net book value at 31 December 2002	3,161	52	3,213

12 Investments

Group	Unlisted £000	Listed £000	Total £000
Cost:			
At 1 January 2003	24,266	12	24,278
At 31 December 2003	24,266	12	24,278
Amounts provided:			
At 1 January 2003 (restated)	24,266	6	24,272
Charge	–	–	–
At 31 December 2003	24,266	6	24,272
Net book value:			
At 31 December 2003	–	6	6
At 31 December 2002 (restated)	–	6	6

The market value of the investment in Fortune Oil PLC, a company listed on the London Stock Exchange, was £18,750 at 31 December 2003 (2002 – £5,625).

Company

	Shares in subsidiary undertakings (b) & (c) €000	Capital contributions to subsidiary undertaking €000	Other fixed asset investments (a) €000	Total €000
Cost:				
At 1 January 2003	135,450	4,388	12	139,850
At 31 December 2003	135,450	4,388	12	139,850
Amounts provided:				
	Shares in subsidiary undertakings (c) €000	Capital contributions to subsidiary undertaking €000	Other fixed asset investments (a) €000	Total €000
Provision:				
At 1 January 2003 (restated)	30,006	4,388	6	34,400
Charges	–	–	–	–
At 31 December 2003	30,006	4,388	6	34,400
Net book value:				
At 31 December 2003	105,444	–	6	105,450
At 31 December 2002 (restated)	105,444	–	6	105,450

(b) Subsidiary undertakings

The Group's subsidiary undertakings at 31 December 2003 are listed below.

	Country of Incorporation	Class of share capital held	Proportion held by the Group	Nature of business
Sibir Energy Overseas Limited	Guernsey	Ordinary	100%	Investment holding
Caraline Trading Limited	Cyprus	Ordinary	100%	Investment holding
Silver Fox Limited	Isle of Man	Ordinary	100%	Investment holding
Eurosov Energy PLC	England & Wales	Ordinary	100%	Intermediate holding
Sibenergy (Cyprus) Limited	Cyprus	Ordinary	100%	Intermediate holding
Kangol Enterprises Limited	Cyprus	Ordinary	100%	Intermediate holding
Rensdorf Management Limited	Cyprus	Ordinary	100%	Intermediate holding
Printempa Holding Limited	Cyprus	Ordinary	100%	Intermediate holding
Farrell Resources Limited	British Virgin Islands	Ordinary	100%	Intermediate holding
Zambrano Limited	British Virgin Islands	Ordinary	100%	Intermediate holding

Held indirectly

	Country of Incorporation	Class of share capital held	Proportion held by the Group	Nature of business
Yugraneft Joint Stock Oil Company	Russian Federation	Ordinary	43.6%	Development of oil and gas reserves
Evikhon Oil Open Joint Stock Company	Russian Federation	Ordinary	82.0%	Development of oil and gas reserves
SF International Limited Liability Company	Russian Federation	Ordinary	100%	Investment holding
Caraline Inter Limited Liability Company	Russian Federation	Ordinary	100%	Investment holding
Farrell Resources Limited Liability Company	Russian Federation	Ordinary	100%	Investment holding
EuroSov Petroleum Ltd	Guernsey	Ordinary	100%	Intermediate holding company and provider of technical and management services
W & D Holdings Limited	Guernsey	Ordinary	100%	Intermediate holding
Langue Ltd	Isle of Man	Ordinary	100%	Investment holding
Fabula Ltd	Isle of Man	Ordinary	100%	Investment holding
EuroSov Energy Holdings Ltd	England & Wales	Ordinary	100%	Investment holding
EuroSov Petroleum (UK) Ltd	England & Wales	Ordinary	100%	Provision of technical, financial and management services
EuroSov Petroleum Holdings (Cyprus) Ltd	Cyprus	Ordinary	100%	Investment holding
SOC (Cyprus) Ltd	Cyprus	Ordinary	100%	Investment holding
Cosmodon Holdings Limited	Cyprus	Ordinary	100%	Oilfield supplies & Services
G. S. Margarita Holdings Limited	Cyprus	Ordinary	100%	Intermediate holding
Magma Oil Company	Russian Federation	Ordinary	95%	Oil and gas production and exploration

All subsidiary undertakings have been consolidated in the Group financial statements.

(c) Joint ventures

	Country of Incorporation	Class of share capital held	Proportion held by the Group	Nature of business
(i) Alendina Holdings Limited	Cyprus	Ordinary	50%	Oil trading company
(ii) Salym Petroleum Development N.V.	Netherlands	Ordinary	50%	Oil & gas production & exploration

The Company's share of the net liabilities of SPD is as follows:

	2003 £000	2002 £000
Fixed assets	–	985
Current assets	10,648	326
Share of gross assets	10,648	1,311
Liabilities due within one year	(7,699)	(419)
Liabilities due after more than one year	(3,781)	(4,877)
Share of gross liabilities	(11,480)	(5,296)
Share of net liabilities	(832)	(3,985)

13 Stocks

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000 (restated)
Raw materials and consumables	631	1,241	–	–

14 Debtors

Amounts falling due within one year:

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000 (restated)
Trade debtors	2,371	961	–	–
Amounts owed by subsidiary undertakings	–	–	2,005	1,471
Other debtors	6,940	4,894	34	996
Prepayments and accrued income	837	2,083	103	1,030
	10,148	7,938	2,142	3,497

Amounts falling due after more than one year are:

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000 (restated)
Amounts owed by subsidiary undertakings ⁽ⁱ⁾	–	–	47,309	26,370
Prepayments and accrued income	2,854	–	2,854	–
	2,854	–	50,163	–

⁽ⁱ⁾ Amounts owed by subsidiary undertakings include non-interest and interest bearing loans of £36,349,000 (2002 – £26,370,000) due from Evikhon and non-interest and interest bearing loans of £10,961,000 due from Magma. Interest is charged on the interest bearing loans at the US Dollar LIBOR six month rate plus 4%.

15 Creditors: amounts falling due within one year

	Group 2003 €000	Group 2002 €000	Company 2003 €000	Company 2002 €000
Convertible loan notes (Note 17)	725	–	725	–
Trade creditors	2,461	3,852	–	–
Amounts owed to subsidiary undertakings	–	–	10,436	806
Taxation and social security	856	349	16	15
Other creditors	26	32	26	639
Accruals and deferred income	1,093	1,673	895	1,477
Other loans (Note 17)	23,152	18,125	11,731	9,317
	28,313	24,031	23,829	12,254

On 18 February 2002 the Company held a meeting of the 15% convertible loan note holders. At the meeting approval was granted to extend the term of the notes to 30 June 2004 and to reduce the interest rate payable to 11%. The security held by the loan note holders was also amended to a fixed and floating charge over all of the assets of Sibir.

As at 31 December 2003 a total of £19,172,874 had been converted into ordinary shares, £102,000 had been redeemed for cash and £725,126 had rolled over into 11% convertible loan notes redeemable on 30 June 2004.

For details of the security granted in respect of the convertible loan notes see Note 17.

16 Creditors: amounts falling due after more than one year

	Group 2003 €000	Group 2002 €000	Company 2003 €000	Company 2002 €000
Convertible loan notes (Note 17)	–	3,619	–	3,619

For details of the security granted in respect of the convertible loan notes see Note 17.

17 Financial Instruments

(a) Short-term Debtors and Creditors

Short-term debtors and creditors have been excluded from the numerical disclosures, except currency risk disclosures, as permitted by FRS13 “Derivatives and other financial instruments: Disclosures”.

(b) Interest Rate Risk Profile of Financial Assets

The interest rate risk profile of the Group’s financial assets was as follows:

31 December 2003

Currency	Total €000	Floating Rate €000	Interest-free €000
Cash			
Sterling	144	144	–
US Dollar	7,113	7,113	–
Roubles	2,204	2,204	–
	9,461	9,461	–
Investments			
Sterling	6	–	6
	9,467	9,461	6

31 December 2002

Currency	Total £000	Floating Rate £000	Interest-free £000
Cash			
Sterling	(10)	(10)	–
US Dollar	3,648	3,648	–
Roubles	108	108	–
	3,746	3,746	–
Investments (restated)			
Sterling	6	–	6
	3,752	3,746	6

Interest from investments comprise an equity investment in Fortune Oil PLC of £5,625.

The cash at bank comprises floating rate deposits placed on money markets at call.

(c) Interest Rate Risk Profile of Financial Liabilities

The interest rate risk profile of the Group's financial liabilities was as follows:

31 December 2003

Currency	Total £000	Fixed Rate £000	Floating Rate £000	Interest-free £000	Fixed Rate Weighted average interest rate %	Weighted average period for which rate is fixed, year
Sterling	725	725	–	–	11	0.5
US Dollar	19,496	2,944	8,938	7,614	10	0.13
Roubles	3,656	3,656	–	–	18	0.81
	23,877	7,325	8,938	7,614		

31 December 2002

Currency	Total £000	Fixed Rate £000	Floating Rate £000	Interest-free £000	Fixed Rate Weighted average interest rate %	Weighted average period for which rate is fixed, year
Sterling	3,619	3,619	–	–	11	1.5
US Dollar	18,125	381	9,317	8,427	10	1.0
	21,744	4,000	9,317	8,427		

The floating rate liabilities comprise a loan of US\$16,000,000 from Select Energy Trading GmbH which bears interest at the rate of one month \$ LIBOR plus 5.5%.

The fixed rate liabilities comprise, £725,000 of convertible loan notes which were issued during 2000 and which bear interest at 11% (2002 – £3,619,000), a loan from the Moscow Oil Company of £3,082,000 (162,000,000 Roubles) which bears interest at the rate of 19.5%, a loan from Willow Tree Investments Limited of £2,793,000 (\$5,000,000) which bears interest at 10%, a loan from the International Moscow Bank of £574,000 (30,000,000 Roubles) which bears interest at the rate of 13.25% and a loan from the Russian Ministry of Finance of £151,000 (\$271,000) which bears, interest at 10%.

The interest free liabilities comprise loans from minority shareholders to the Company's subsidiaries Evikhon £7,140,000, (2002 – £7,939,000) and a loan for oil trading of £474,000 (2002 – £488,000).

(d) Currency Exposures

The Group's objectives in managing the currency exposures arising from its net investments overseas (in other words, its structural currency exposures) are to match, to the extent practical, receipts and payments in the same currency and by following a range of commercial policies to minimise exposure to the Roubles denominated sales.

Gains and losses arising from these transactional currency exposures are recognised in the statement of total recognised gains and losses.

The table below shows the Group's currency exposures. Such exposures comprise the monetary assets and monetary liabilities of the Group that are denominated in the currencies other than the functional currency of the operating unit involved. The functional currency of the Group's operating companies is the US dollar in Russia and Pound Sterling in the UK.

At 31 December 2003 the currency risk attributable to net monetary assets and liabilities was as follows:

	Sterling	Net foreign currency monetary assets/(liabilities) in £000		Total
		US Dollar	Roubles	
Functional currency of Group operations				
Sterling	–	(4,634)	11	(4,623)
US Dollar	–	–	(1,463)	(1,463)
	–	(4,634)	(1,452)	(6,086)

At 31 December 2002 the currency risk attributable to net monetary assets and liabilities was as follows:

	Sterling	Net foreign currency monetary assets/(liabilities) in £000		Total
		US Dollar	Roubles	
Sterling	–	(9,065)	1	(9,064)
US Dollar	–	–	106	106
	–	(9,065)	107	(8,958)

(e) Maturity of Financial Liabilities

The maturity profile of the Group's financial liabilities (ie. Convertible loan notes and bank and other loans) was:

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
In one year or less				
Convertible loan notes	725	–	725	–
Other loans	23,152	18,125	11,731	9,317
	23,877	18,125	12,456	9,317
Between one and two years				
Convertible loan notes	–	3,619	–	3,619
	23,877	21,744	12,456	12,936

(f) Convertible Loan Notes

In 2000 the Company raised £20,000,000 by way of an open offer of convertible loan notes. The notes were issued in denominations of £1,000 and have been admitted to trading on the Alternative Investment Market of the London Stock Exchange. The total cost incurred in issuing the loan notes was £747,000. The notes were due to mature on 30 June 2003 and be redeemed for cash if not previously converted or redeemed and they carried an interest coupon of 15% per annum, payable quarterly in arrears.

On 18 February 2003 the Company held a meeting of the 15% convertible loan note holders. At the meeting approval was granted to extend the term of the notes to 30 June 2004 and to reduce the interest rate payable to 11%. The security held by the loan note holders was amended to a fixed and floating charge over all of the assets of Siber.

Conversion of the notes into ordinary shares is at the election of the holder, at any time up to 30 June 2004, at nominal value at a conversion price per ordinary share which will be the higher of 10p or 10p plus 50% of the difference between 10p and the average market price of an ordinary share for the thirty dealing days immediately prior to notice of conversion being given by the holder.

At 31 December 2003 a total of £19,172,874 (2002 – £16,278,674) of convertible loan notes had been converted into ordinary shares in the Company with a further £102,000 having been redeemed for cash in previous period.

Since 31 December 2003 a further £48,200 of convertible loan notes had been converted into new ordinary shares in the Company.

(g) Borrowing Facilities

At 31 December 2003 the Company had a pre-export finance facility with Select Energy Trading GmbH for \$17,000,000 of which \$16,000,000 had been drawn down. The loan was held under a fixed term, fixed repayment facility with interest chargeable on the remaining outstanding balance at one month \$ LIBOR plus 5.5%. In June 2004 \$3,000,000 was drawn down with \$2,000,000 of the facility being repaid. The balance of the loan is due for repayment in equal monthly instalments commencing in September 2004. The facility is for the purposes of oilfield development at Upper Salym. The Company has also guaranteed that, for the period of the facility, all crude oil export sales will be sold via Select Energy Trading GmbH.

At 31 December 2003 the Company's subsidiary Magma had a loan from the International Moscow Bank of 30,000,000 roubles and the security for this loan was a charge over a heater treater belonging to Magma.

The Group did not have any undrawn borrowing facilities as at 31 December 2003 (2002 – £nil).

(h) Fair Values of Financial Assets and Financial Liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities.

Since 31 December 2003, a further £48,200 of convertible loan notes have been converted into 288,643 ordinary shares in the Company.

At 31 December 2003

	Book Value £000	Estimated Fair Value £000
Primary financial instruments held		
Investments	6	19
Cash	9,461	9,461
Short term borrowings	23,877	23,877
Long term borrowings	–	–

At 31 December 2002

	Book Value £000	Estimated Fair Value £000
Primary financial instruments held		
Investments	6	6
Cash	3,746	3,746
Short term borrowings	18,125	18,125
Long term borrowings	3,619	3,619

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction, other than in a forced or liquidated sale.

(i) Hedging

The Company did not hedge any production for the calendar year 2003 but continues to monitor the position.

18 Obligations Under Operating Leases

Annual commitments under non-cancellable operating leases are as follows:

Group

	Land & buildings 2003 €000	Land & buildings 2002 €000
Operating leases which expire:		
Within one year	–	–
In two to five years	33	33
Over five years	150	150
	183	183

Company

	Land & buildings 2003 €000	Land & buildings 2002 €000
Operating leases which expire:		
Within one year	–	–
In two to five years	33	33
Over five years	150	150
	183	183

19 Provisions for Liabilities and Charges

Group

	Deferred Tax €000	Decommissioning Provision €000	Other €000	Total €000
At 1 January 2003	136	263	811	1,210
Additions during the year	585	87	–	672
Unwinding of discount	–	–	–	–
Utilised during the year	–	–	–	–
Currency movements	(42)	–	–	(42)
At 31 December 2003	679	350	811	1,840

Company

	Other €000	Total €000
At 1 January and 31 December 2003	811	811

The decommissioning provision relates to the future costs of decommissioning of the Group's oil and gas assets expected to be incurred over the next eighteen years according to the estimates provided by the field operators.

Other provisions relate to a lease agreement on the Group's vacant leasehold property in Aberdeen which is partially re-let.

The deferred tax consists of:

	2003 £000	2002 £000
Undiscounted net deferred tax liability		
Accelerated capital allowances	768	225
Other timing differences	(55)	(55)
Tax losses	(34)	(34)
	679	136

20 Share Capital

Authorised

	31 December 2003 No.	31 December 2002 No.	31 December 2003 £000	31 December 2002 £000
Ordinary shares of 10p each	2,400,000,000	2,400,000,000	240,000	240,000

Allotted, called up and fully paid

	31 December 2003 No.	31 December 2002 No.	31 December 2003 £000	31 December 2002 £000
Ordinary shares of 10p each	1,746,537,830	1,566,837,549	174,654	156,684

Authorised ordinary shares

During 2003 a total of 25,200,281 new ordinary shares of 10p each were issued as a result of conversion notices being received from convertible loan note holders wishing to convert a total of £2,894,200 of convertible loan notes into shares.

On 24 October 2003 and 10 November 2003, 71,500,000 and 78,500,000 respectively new ordinary shares of 10p were issued for cash at 16p per share for a total consideration of £24,000,000 less share issue expenses of £1,267,000.

The company has a share option scheme under which options to subscribe for the company's shares have been granted to certain executives and employees. At 1 January 2003 options under this scheme were outstanding over 9,750,000 ordinary shares exercisable at 10p each. On 20 May 2003 and 24 September 2003 share options of 2,250,000 and 2,250,000 respectively were exercised and a total of 4,500,000 new ordinary shares were issued at the exercise price of 10p per share. A total of 400,000 options lapsed during the year. At 31 December 2003 a total of 4,850,000 remain outstanding and are exercisable at any time up to 9 June 2010.

21 Reserves

Group	Capital Redemption reserve £000	Share premium account £000	Profit and loss account £000
At 1 January 2003			
– as previously reported	14,396	31,149	(44,806)
Prior year adjustments	–	–	(20,988) ^[i]
At 1 January 2003 (restated)	14,396	31,149	(65,794)
Loss for the year	–	–	(12,983)
Exchange differences	–	–	(4,148)
Premium on shares issued	–	8,107	–
At 31 December 2003	14,396	39,256	(82,925)

Company	Capital Redemption reserve £000	Share premium account £000	Profit and loss account £000
At 1 January 2003			
– as previously reported	14,396	31,149	(30,282)
Prior year adjustments	–	–	(49,862) ^[i]
At 1 January 2003 (restated)	–	–	(80,144)
Loss for the year	–	–	(7,762)
Premium on shares issued	–	8,107	–
At 31 December 2003	14,396	39,256	(87,906)

^[i] Correction of fundamental error 2003

In April 2004 the company discovered that its investment in Sibneft-Yugra had been diluted to less than 1% in 2002 by way of a series of share issues by Sibneft-Yugra which had taken place without the company's knowledge. The discovery of this dilution has led the Directors to conclude that the company's investment in Sibneft-Yugra, the licence holder of the Priobskoye fields, was impaired as at 31 December 2002.

This error has been corrected in the current year financial statements, by restating the prior year comparatives. This restatement has resulted in the recognition of an additional £20.99 million loss on impairment of the investment in Sibneft-Yugra.

The prior year adjustment in the profit and loss account of Sibir Energy plc of £49.86 million is made up of an impairment of its interest in Yugraneft of £34.39 million and a provision against inter-company loans to Yugraneft of £15.47 million.

22 Notes to the Statement of Cash Flows

	2003 £000	2002 £000
(a) Reconciliation of operating loss to net cash outflow from operating activities		
Operating loss	(4,049)	(2,091)
Depreciation, depletion and decommissioning	2,192	4,953
Decrease/(increase) in stocks	610	(1,023)
Increase in debtors	(316)	(2,074)
(Decrease) / Increase in creditors	(3,159)	665
Profit on disposal of investments	–	(1,142)
Net cash outflow from operating activities	(4,722)	(712)
(b) Returns on investment and servicing of finance		
Interest received	20	17
Interest paid	(1,128)	(1,600)
	(1,108)	(1,583)
(c) Taxation		
Corporation tax paid	(823)	(927)
(d) Capital expenditure and financial investment		
Purchase of tangible fixed assets	(17,869)	(14,986)
Sale of plant and machinery	–	23
Sale of investments	–	1,007
	(17,869)	(13,956)
(e) Acquisitions and disposals		
Net cash disposed of in subsidiary sold	–	(3,435)
Proceeds of sale of subsidiary	–	10,531
	–	7,096
(f) Financing		
Receipt of loans	10,899	18,345
Proceeds of share issue	24,000	–
Expenses of share issue	(1,267)	–
Proceeds of share options	450	–
Repayment of convertible loan notes	–	(102)
Repayment of unsecured loan	(141)	–
Repayment of secured loan	(3,704)	(8,007)
Capital element of finance lease rental payments	–	(144)
	30,237	10,092

(g) Analysis of net debt

	At 1 January 2003 £000	Cash flow £000	Exchange differences £000	Other Non-cash movements ^[i] £000	At 31 December 2003 £000
Cash at bank and in hand	3,746	5,715	–	–	9,461
Cash	3,746	5,715	–	–	9,461
Debt due after one year	(3,619)	–	–	3,619	–
Debt due within one year	(18,125)	(7,054)	2,027	(725)	(23,877)
	(17,998)	(1,339)	2,027	2,894	(14,416)

[i] The other non-cash movements comprise of £3,619,000 of 15% convertible loan notes which were due after more than one year at 31 December 2003 but which are now due within one year at 31 December 2003. During 2002 £2,894,000 of these were converted into new ordinary shares of the Company.

23 Capital Commitments

	Group 2003 £000	Group 2002 £000
Contracted but not provided for	5,500	12

24 Contingent Liabilities

On 9 June 1997 the Company's subsidiary EuroSov Petroleum Limited as a condition of an assignment of contract debt agreed to arrange delivery of certain Russian equipment valued at \$500,000 to Henuset Pipeline Construction Limited. Henuset Pipeline Construction Limited had been responsible for the construction of a pipeline at the Group's subsidiary Magma. The equipment was handed over in 1998, however, in June 2000 a statement of claim for \$750,000 was issued by Henuset Pipeline Construction Limited which stated that they had not received all of the Russian equipment. EuroSov Petroleum Limited is currently defending the claim. The directors expect that no payment will be made and therefore no provision has been made in these financial statements.

25 Pension Commitments

The Company's Russian subsidiaries contribute to the Russian Federation State pension fund, social insurance, medical insurance and unemployment funds on behalf of its employees. The Group contributes to a defined contribution pension scheme which is administered by Standard Life Assurance Company and to various personal pension schemes of directors and senior employees. Contributions totalling nil (2002 – £nil) were payable to the Schemes at 31 December 2003.

26 Ultimate Parent Undertaking and Controlling Party

In the directors' opinion, the Company's ultimate parent undertaking is Bennfield Limited, a company incorporated in the Isle of Man. Bennfield is controlled by the Tchigirinski family, in which Mr Chalva Tchigirinski has an interest. The Tchigirinski family are the ultimate controlling party.

At 31 December 2003 Bennfield Limited owned 36.39% of the Company's ordinary share capital, however, it also has the right to maintain its equity ownership position at 51%. Full details of the controlling shareholder agreement are shown in Note 27.

27 Related Party Transactions

(i) Bennfield Limited

On 9 June 2000 the Company acquired 100% of the issued share capitals of Kangol Enterprises Limited, Rensdorf Management Limited and Rugles Limited as a result of which the Group acquired 55% of the issued share capital of Evikhon. The Company acquired the companies by issuing 710,580,000 new ordinary shares to Bennfield Limited ("Bennfield"), a company, incorporated in the Isle of Man, controlled by the Tchigirinski family in which Mr. Chalva Tchigirinski has an interest. Mr. Chalva Tchigirinski became a director of the Company on 9 June 2000.

For the protection of the minority shareholders of the Company, Mr. Pavel Tchigirinski and Mr. Chalva Tchigirinski have entered into a Controlling Shareholder Agreement with the Company upon completion of the acquisitions.

The principal protections provided by the Controlling Shareholder Agreement are as follows:

Except with the consent of the London Stock Exchange, the three parties will be committed for as long as they jointly or severally control the voting of 30% or more of the issued ordinary share capital of the Company:

- Not to use Bennfield's controlling shareholding so as to enable Bennfield to appoint a majority of the Board without the consent of those directors who are independent of Bennfield and persons connected with Bennfield ("the independent directors");
- Not to become major shareholders in any company or business which is in direct competition with the Company;
- Not to vote in respect of any contract or arrangement with the Company in which they have an interest, except with the consent of the independent directors;
- Not to behave in any way which is detrimental to the interest of shareholders of the Company as a whole or which precludes the Company from carrying on its business independently;
- To conduct all transactions and relationships with the Company on an arm's length basis on normal commercial terms; and
- To ensure that the Board has at all times no fewer than two independent directors.

During the continuance of these obligations, the Company will agree not to appoint a Chief Executive without the consent of Bennfield, such consent not to be unreasonably withheld.

In the event that any of the convertible loan notes are converted into ordinary shares this would have the effect of reducing Bennfield's voting shareholding in Sibir to below 50%. Accordingly, Bennfield is to be granted the right to itself subscribe, in such eventuality, for such number of ordinary shares as would be necessary to restore its ownership position to 51%. This right to subscribe will run for fifty six days from the date upon which the maximum number of ordinary shares issued as a result of conversion of the notes, becomes known.

The maximum number of ordinary shares for which Bennfield could become entitled to subscribe, assuming conversion of the maximum £20 million nominal notes at the minimum conversion price of 10p per ordinary share, is 208,162,505. This number would be reduced in the event that either the conversion price were to be higher than 10p or the nominal amount of notes issued pursuant to the open offer were to be less than £20 million, or no conversion takes place.

The price at which Bennfield is to be entitled to subscribe for ordinary shares is to be the average of the prices at which notes have been converted into ordinary shares.

Subscription by Bennfield is to be satisfied, at its election, either (a) in cash, or (b) through the contribution to Sibir of a share in a joint venture with BP plc for the retailing of petroleum products in the Moscow region, or a smaller asset or assets. In the eventuality that the subscription is satisfied through contribution of assets, such assets shall be the subject of an independent valuation, to be conducted by a firm of chartered accountants appointed by Sibir, in accordance with the requirements of Section 103 of the Companies Act 1985.

(ii) Moscow Oil and Gas Company

The Moscow Oil and Gas Company was incorporated on 30 May 2003. The terms of the Founders Agreement provide that the two shareholders of MOGC, Sibir and the Central Fuel Company, shall have equal representation on the Board of MOGC.

Yuri Mikhailovitch Lushkov, the prominent and influential Mayor of Moscow is the Chairman of MOGC and Chalva Pavlovitch Tchigirinski, a non-executive director and significant shareholder of Sibir has been appointed the Chief Executive of MOGC for a five year term. William Guinness and Henry Cameron, the Chairman and Chief Executive of Sibir respectively, are also Board Members of MOGC, as are Sibir directors Urs Haener, Karl-Heinz Stock and Stuard Detmer. Additionally, Chalva Tchigirinski holds the position of General Director of the Central Fuel Company.

28 Events Since the Balance Sheet Date

Sibneft-Yugra

On 19 April 2004 the Board announced that it had been granted the temporary suspension of trading on AIM of both its ordinary shares of 10 pence each and its Convertible Secured Loan Stock 2004 pending clarification of certain arrangements relating to its shareholding in Sibneft-Yugra.

On 1 June 2004 the Board made a further announcement explaining what appeared to have occurred at Sibneft-Yugra and the steps which were being taking to rectify the situation. The announcement stated that in May 2003 Sibir and Central Fuel Company ("CFC") signed a foundation agreement to establish MOGC, a joint venture company that would combine Sibir's upstream interests in Sibneft-Yugra, held in its subsidiary, Yugraneft, with CFC's downstream interests in Moscow (which includes inter alia, the Moscow Oil Refinery). Sibir agreed to transfer its shares in Yugraneft in return for a 45% interest in MOGC. On 28 August 2003 shares in MOGC were allotted to Sibir conditional, inter alia, on completion of the transfer to MOGC of its interest in Yugraneft.

Independent valuations undertaken in connection with the formation of MOGC ascribed a value of US\$111.5 million to the shares in Yugraneft and a value of US\$136.2 million to CFC's downstream assets. As a result it was agreed that Sibir would obtain a 45% economic interest in MOGC and CFC a 55% interest. Voting rights and representation on the board of directors of MOGC however would be shared 50:50 between the parties.

On 15 April 2004 the board of MOGC advised Sibir that it had discovered that Yugraneft's interest in Sibneft-Yugra had been diluted from 50% to less than 1%. The suspension of the Ordinary Shares and Convertible Loan Stock was requested as a result of this as soon as was practicable, pending further clarification and verification of the position. A preliminary investigation undertaken by Sibir confirms that this dilution appears to have occurred and was done without the knowledge of the boards of Yugraneft or Sibir.

The Board intends to pursue with utmost vigour the restoration of Yugraneft's 50% shareholding in Sibneft-Yugra and has the support of CFC in taking actions to preserve MOGC. The Board has obtained legal opinion that the dilutive measures carried out at Sibneft-Yugra were illegal and Sibir has grounds for the restitution of Yugraneft's 50% shareholding.

The value of Sibir's contribution of Yugraneft to MOGC has clearly been impaired as a result of the dilution in the Yugraneft holding in Sibneft-Yugra. In recognition of the importance to Sibir of the formation of MOGC, Sibir is in the process of finalising an agreement (the principal terms of which have been agreed) with CFC and MOGC. The purpose of this agreement is to enable completion to take place of the capitalisation of MOGC so allowing the allotment to Sibir of its 45% interest in MOGC.

The process required independent valuations of both Sibir's assets and the assets contributed to MOGC by CFC. This process was completed and the valuations were received by the Supervisory Board of MOGC on 17 June 2004. The Supervisory Board of MOGC accepted Sibir's proposal that Sibir, in subscribing for its 45%, should substitute its original contribution of 50% of Sibneft Yugra by contributing at Sibir's option oil sector assets of Sibir (in accordance with the valuations) or the equivalent in cash, rather than the issue of new Sibir shares. This agreement to contribute other assets of Sibir or cash will now be finalised and documented before the end of July, and terms of the substitution will be announced in due course. It is expected that the Sibir shares will resume trading on AIM as soon as is practicable thereafter.

Convertible Loan Notes

Since 31 December 2003 a further £48,200 of convertible loan notes have been converted into 288,643 new ordinary 10p shares in the Company. The balance of the outstanding loan notes of £676,926 will be repaid on 30 June 2004.

Financing

On 24 May 2004 the Company's subsidiary Evikhon entered into a loan agreement with the Amsterdam Trade Bank for the sum of \$20,000,000. The purpose of the loan is the funding of Evikhon's share of the development costs of the SPD joint venture. The loan is for two years and bears interest at 10%. Sibir Energy plc is acting as Guarantor for this loan.

Corporate Directors

Directors

William L S Guinness, Non-Executive Chairman
Henry O Cameron, Chief Executive
Alexander Betsky, Finance Director
Stuard Detmer, Downstream Operations Director
Urs Haener, Non-Executive Director
Evgeny Savostyanov, Non-Executive Director
Karl-Heinz Stock, Non-Executive Director +*
Chalva Tchigirinski, Non-Executive Director

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