



Sibir Energy plc

Annual Report & Accounts
for the Year Ended 31 December 2004





“The expected commissioning of the Salym Fields in November 2005 will lead in three or four years to production in excess of 75,000 barrels of oil per day, and we can, on that alone, safely state that the Company has never been in better shape.”

Report of the Chairman and Chief Executive

In our report to you in September 2004 we promised you that in 2004 the Company's shares would resume trading and the company would enjoy a significant turnaround in financial performance. Trading in shares resumed on 21 December, 2004 and our financial performance improved throughout 2004 and this improvement is continuing in 2005.

The expected commissioning in November 2005 of the Salym Fields with their scope of recovery reserves of 812 million barrels of oil will lead in three or four years to production in excess of 75,000 barrels of oil per day (our share) and we can, on that alone, safely state that the Company has never been in better shape. Add to that the increase in production and reserves in Magma, the profitable benefits from our involvement in Moscow Oil and Gas Company and our confidence that our interest in Sibneft Yugra will be restored in due course makes us feel that the future for Sibir is secured and will be financially rewarding. With our large reserve of oil it is small wonder that we are courted by a number of oil and gas companies. We are determined to continue to go it alone and, in the interest of shareholders, ensure that the value of what we have created is properly recognised by the market.

Getting to this stage has not been without its difficulties but that is the experience of most foreign companies trying to make their mark in Russia. None of these difficulties are at the hand of the State or attributable to political risk. Recently President Putin described one large oil and gas company in which there is a material British content as “a Good Corporate Citizen” indicating that, as such, they could expect to conduct their business in the future without interference from the State and implying the State would ensure fair play. We are confident that Sibir has earned the same description and can expect the same treatment. Every difficulty we have encountered has either been attributable to a lack of commercial transparency on the part of others or maliciously aggressive competition designed to de-stabilise Sibir and render it vulnerable to unfair predatory activity.

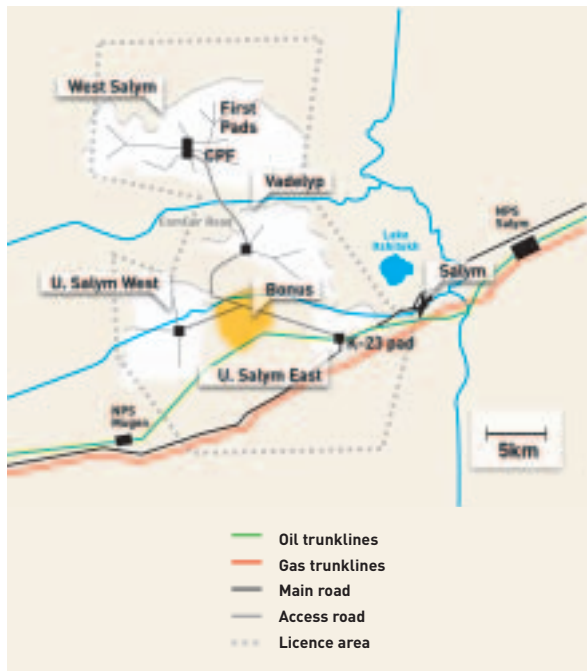
We have met every such difficulty calmly and slowly and surely overcame them and moved forward with our projects.

The current alleged derivative action to which we will refer in greater detail later in our report is a case in point. Suffice to say that at this stage this action, in the unanimous opinion of your Board, is a maliciously manipulative abuse of admirable minority protection provisions of English law and will be seen, in due course, to be without foundation and as such an irritable but expensive side show. The insignificant shareholder support for this action has been encouraging for your management and for our main shareholder upon whom so much has depended in the past. Your trust in all of them is not misplaced.

Salym Fields

The progress we reported to you in September continues, if anything, at a greater pace and the operator, Salym Petroleum Development (“SPD”), our 50/50 joint venture with The Royal Dutch Shell Group confidently predicts that the development will be commissioned by November 2005. This means that oil will be pumped from the fields through SPD's own 90 kilometre, 530 millimetre diameter, pipeline to join the national pipeline network and, through that, to either Moscow Refinery or export customers. Four rigs are operational in the fields with wells now taking between 11 and 15 days to drill. It is expected that not less than 80 wells per year will be drilled in 2006 and onwards. In 2005 alone, it is expected a total of not less than 70 wells will be drilled with many of them in production in the last quarter of 2005 and with all of them in production in the first quarter of 2006.

Wells on production tests are testing on average above SPD's expectations. Recent SPD interpretation of the old and new seismic surveys will lead to a re-assessment of the location of wells and the drilling programme. We are expecting positive results over and above expectation from this re-assessment. While waiting for the facilities to be fully



Above: Salym Fields site map.



Above: West Salym drilling rig.

commissioned, SPD has been trucking oil to a sales point and we are enjoying revenues, albeit modest at this stage, ahead of schedule.

Later this year some wells will be drilled to the deepest known reservoir and if oil is discovered and can be produced then the reserves, production and longevity of the field will be materially enhanced.

The total capex budget for the fields up to 2011 is approximately US\$1.25 billion and according to latest estimates the field will be self financing towards the end of 2006, perhaps even a little earlier.

The extension during 2005 of two of the three licences at Salym to the third decade of the millennium is clear evidence of the satisfaction of the authorities with the performance of SPD. We too are very satisfied with the pace and quality of the development. In the space of two years SPD has created a role model for Western Siberian developments.

Funding the development in which by 30 June 2005 we will have invested US\$290 million has been our biggest challenge at Salym. We have sought to finance in the manner least exposed to any form of dilution be it for shareholders or in the project itself. We have financed our stake from a mixture of the original carry from Shell, our own surplus cash flows and funds, soft trade loans (in return for product delivery) and loan facilities, guaranteed by our main shareholder or obtained against its reputation and connection. Having financed approximately seventy five per cent of our share of the cost of the development prior to it

becoming self financing, we are very confident in our ability to fund the remaining twenty five per cent before the project becomes self financing. This is especially so in the knowledge of our main shareholder's commitment to underwrite the funding requirement given in the last quarter of 2004.

Initially Sibir was formed to participate in the development of the Salym Fields and from our original 10% stake, we have grown our interest to 46% which will reach 50% in a matter of weeks following the Anti Monopoly approval for the last 4% which is expected any day now. We take pride and satisfaction from having played a material part in steering the project to the stage of full scale development and are delighted that we have managed to maximise Sibir's stake in the process.

Magma

The same pride and satisfaction applies to Magma. We bought this company in 1999 for US\$17 million and it has been our main source of income since then. It has produced for us over US\$61 million of free cash since then and its current production is substantially higher than that at the time of acquisition. Indeed as we write this report Magma has reported production of over 8000 barrels of oil per day which is the highest production figure reached since our acquisition. Development work over the last two to three years has resulted in an increase in the official estimated recoverable reserve to 81 million barrels from 51 million barrels. Of this new estimate the C1 category (considered by Russian standards to be proved) has been approved at 74 million barrels.



Above: MOGC's Moscow Oil Refinery.



Above: New MTK outlet.

MOGC

We agreed to transfer our interest in Magma in return for our 45% stake in MOGC and we expect this transaction to complete in July, when we hope to have Anti Monopoly approval for the transfer. As we have already agreed to make this transfer, the accretion in value will be shared with the City of Moscow as the other shareholders of MOGC. Honouring this agreement and sharing this enhancement in value enables us to reciprocate the very supportive attitude of the City of Moscow when it was discovered that our previous contribution had been very materially impaired as previously reported. It is gratifying that the City's trust in Sibir is being rewarded by this enhancement in value.

Since March 2004 Sibir has traded 45% of MOGC's 50% of the quota at the Moscow Refinery with the City of Moscow trading the other 55%. This has proved to be very profitable business for Sibir and is the biggest contributory factor to the turnaround in Sibir's operating financial performance. That improved performance has continued in 2005 at an even greater pace with the cash thrown off from our trading operations being invested in the Salym Development.

As already announced we have agreed in principle with the City of Moscow that Sibir may increase its stake in MOGC. This agreement will be re-visited after the completion of the Magma transfer. It has always been the case that the City of Moscow's selection of Sibir as the City's partner in MOGC was motivated by the desire to procure a secure supply of crude for the Moscow Refinery leading in turn to stable fuel prices in Moscow. The advanced stage of the Salym Fields development with large scale production

imminent, fully justifies the City's original selection of Sibir. For its part Sibir has secured from the deal with the City of Moscow a refinery to which it can direct its share of oil from Salym.

Financial Performance

As already noted, Sibir's own financial performance improved markedly in the year to 31st December 2004. Compared to last year turnover increased ten fold from £17 million to £168.9 million and gross profit six fold from £3.7 million to £21.4 million approximately. As mentioned, this was largely attributable to the successful trading of the Sibir share of the MOGC quota at the Moscow Refinery. General Administrative expenses increased two fold approximately due to costs associated with the trading of the Sibir share of the quota at Moscow Refinery, costs incurred in ensuring that we could fund the Salym commitment and substantial and non recurring corporate transaction costs in excess of £3.5 million. Group Operating Profit improved from a loss of £4 million last year to a profit of £6.5 million in respect of continuing operations. Our share of the SPD operating loss was £15.2 million compared to £7.8 million last year. The fee of £16.4 million for services paid to our main shareholder (overwhelmingly supported by independent shareholders in December 2004), while paid for in shares issued at £2.50 per share, nevertheless requires to be expensed in the year bringing the total loss to £30.8m for the year.



Above and right: West Salym drilling rig and drilling operator.

Derivative Minority Action

A derivative minority action is an action by a minority shareholder brought against another shareholder who has perpetrated some wrongdoing against the Company. It is in effect brought in the name of the Company and at the expense of the Company. Any award in such an action is for the benefit of the Company. Such an action was raised against our main shareholder Bennfield Limited and its owner Chalva Tchigirinski (and his brother Alexander Tchigirinski who is not a beneficial shareholder in Bennfield Limited). Although the Board of the Company believes the claims of the action to be wholly unfounded and motivated by a desire to de-stabilise the Company and Bennfield Limited, the Chairman has decided to follow the suggestion of the judge in the case and commission a legal enquiry by an independent and reputable lawyer into such matters as the judge feels needs further explanation. This legal investigation will be instructed on or about the time our report to you is published. At this stage it is difficult to say how long it will take but we would be surprised if the result was published later than mid August. As we know that none of the claims in the action are true, we have no doubt as to the favourable outcome of the investigation. Nevertheless in the interests of justice being seen to be done the Company, its directors and Chalva Tchigirinski will co-operate fully with the lawyer conducting the independent review.

Sibneft Yugra

We have consistently expressed our determination to recover our impaired interest in Sibneft Yugra. We also advised shareholders that the restitution action could only be taken after we had preserved the rest of our assets

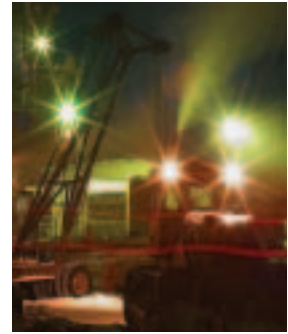
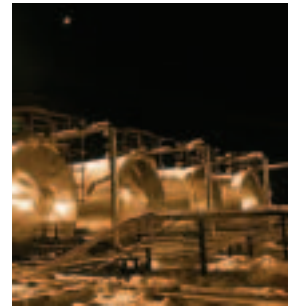
from any knock on effect of the dilution perpetrated against us by representatives of Sibneft, our partner in Sibneft Yugra and after we had implemented our expansion plans.

Because some issues might prescribe and some provocative actions were taken against our subsidiary Yugraneft at the instance of the Sibneft Group we were forced to take certain actions in Russia before we felt completely ready to do so. We have continued these actions and started others in order to:

- restore 50% of Sibneft Yugra to our subsidiary Yugraneft, or better still restore the licence of the whole of the south part of Priobskoye to Yugraneft;
- annul the attempts by the Sibneft Group to transfer responsibility of a debt due by Sibneft Yugra to Sibneft Group to Yugraneft; and
- sue Sibneft for damages incurred by Yugraneft as a consequence of their actions.

We believe legal restitution action against the wrongdoers, the Sibneft Group, its owners and officers will be most effective outside Russia. The approval of transactions by shareholders in December 2004 signalled that we had preserved and indeed fulfilled our expansion plans to our satisfaction. We then started to prepare for our restitution action outside Russia in the first quarter of 2005 and appointed new Russian legal Counsel to deal with our Russian cases early this year. By mid April 2005 we appointed English lawyers and barristers before we became aware of the minority derivative action. We plan to start the formal legal process outside Russia in July.

The Sibneft Group has repeatedly alleged that Sibir was compensated for the effect of dilution. This is untrue and



Above and right: Production facilities at West Salym Well Pad 20.

we look forward to hearing an explanation of its statement under oath.

We firmly believe that our policy of preserving our assets and furthering our corporate plans before taking action has been demonstrated to be prudent.

Outstanding Transactions

In December 2004 we announced a series of transactions. Save as mentioned below all are completed although the transfer of the final 4% of the Salym fields still awaits an Anti Monopoly approval that is expected any day now.

We have not however made progress in the acquisition of 25% plus one share of the BP branded Retail network details of which were fully reported in December 2004 to shareholders. This is because the other shareholder in this network has not assented to the way in which we wanted to structure the transaction. We will in the next two months or so proceed with the transaction by adopting a different structure. Under this different structure the other shareholder is obliged to assent to the transfer provided we comply with the provisions of an agreement which we are able to do.

Relationship with main Shareholder

The derivative action and to some extent the Sibneft Yugra dilution were driven by a desire to discredit Chalva Tchigirinski in the eyes of all other shareholders. We think in the circumstances that we should repeat our absolute confidence that his contribution to the affairs of the Company has been and is essential to the well being of Sibir.

Because the Takeover Code no longer applies to your company, because the assets and the management of the company are in Russia, Chalva Tchigirinski has been concerned that the absence of Code protection will deter investors. Accordingly, to allay any such concerns, our main shareholder has made it clear to the Board in writing that any offer for its shares will only be entertained by him provided an identical offer is made to all shareholders.

Conclusion

We have 46%, shortly to be 50%, of the largest onshore development in Russia. Full scale industrial production will begin in the last quarter of this year. All the signs are favourable. Magma continues to perform above expectation and will do so for longer than expected. Our involvement in MOGC, strategically securing refining capacity for our domestic sales, is already proving highly profitable and our interest in MOGC is likely to expand.

We will get rid of the derivative action soon and are about to demand justice from the Sibneft Group, its owners and officers by the return of our impaired assets.

We are a good corporate citizen in Russia and can expect fair treatment. In a sector where consolidation is popular we shall study very carefully all developments of this nature and make every effort to ensure that your Company occupies a secure position for the long term.

All in all the year 2004 and the first and second quarters of 2005 have been periods of big if not great achievements and have effectively witnessed the coming of age of Sibir.

“Our participation in MOGC has proved to be a very profitable business for Sibir and is the biggest contributory factor to the turnaround in your Company’s financial performance.”



Above: Raising new drill rig.

Operations Review

OA0 Magma Oil Company

Yuzhnoye Field

Magma Oil Company, which is 95% owned by Sibir, operates the Yuzhnoye oilfield in West Siberia. Magma’s 2004 production was 1,745,331 barrels of oil, representing an average of 4,769 barrels of oil per day (“bopd”). Total sales included 1,035,379 barrels of crude oil. The difference between production and sales volumes is primarily due to shipments of crude oil to the Moscow refinery, for processing and subsequent sale as refined products, timing and inventory, with a small portion related to internal consumption for heating. As a result of the establishment of the Group’s new trading department and its access to the Moscow Oil Refinery (“MOR”), export sales were significantly increased to 771,093 barrels (44% of the total versus 25% last year). Of the remaining volumes, 252,198 barrels of crude were sold domestically and 697,492 barrels were processed at the Moscow Refinery and sold into the products market.

As at end 2004, production was from 27 oil wells, supported by 13 injection wells. To support injection, a further 6 water wells pumped water from the upper water-bearing reservoir. Significant progress was made in the ongoing programme to offset production decline, which featured the recommencement of development drilling and a campaign of hydraulic fracturing treatments of new and old wells. By the end of December 2004 three new wells were drilled, of which two were producers that were completed and fractured and the third was drilled as an injector well. In addition, hydraulic fracturing treatments were performed on nine existing wells. As a result of this programme,

production from Yuzhnoye was significantly increased from 4,140 bopd in September 2004 to 5,800 bopd in December, 2004, and further rose to 6375 bopd by April 2005.

In accordance with the approved plan, the drilling and fracturing programme will continue throughout 2005 and part of 2006, with an additional 17 wells and 24 fracturing treatments. It is expected that production from Yuzhnoye will exceed 8,500 bopd upon the completion of the programme. Subject to results, the programme may be extended with an additional 20 to 30 wells, with horizontal drilling planned for at least 10. The drilling and fracturing programme is based on a new geological model of the field developed following the acquisition of 2D seismic and appraisal drilling performed over the last several years. The new model, which was reviewed and approved by Russian Authorities, has indicated a significant 26% increase of oil in place with a resulting 40% increase in reserve estimates (in accordance with Russian categorisation).

As previously reported, a US\$8 million facilities development plan was commenced in 2003 and is now expected to be completed in 2005. The plan provides for upgraded production and water injections facilities and field accommodation. Upon completion Magma will deliver crude oil in accordance with Transneft requirements. In order to fully comply with licence requirements, by 2007 Magma will have to utilise 95% of associated gas produced in the field. A feasibility study will take place in 2005 to review gas utilisation opportunities and, dependent on the findings, may move on to the design phase.



Above and right: Drilling operations.

Salym Petroleum Development N.V.

Salym Petroleum Development (“SPD”), a 50/50 joint venture between Sibir’s subsidiary OAO Evikhon (“Evikhon”) and Shell Salym Development B.V. (“SSD”), a member of Royal Dutch Shell Group, is the operator of the Salym Group of Fields located in the Khanty-Mansiysk Autonomous Okrug in Western Siberia. The Salym Group consists of the West Salym, Upper Salym and Vadelyp oilfields.

Following shareholder approval of the Salym Fields development plan in late 2003, a massive infrastructure development totalling US\$1 billion commenced in 2004 with the aggressive target of producing oil in commercial volumes beginning in the 4th Quarter of 2005. 2004 saw significant progress in the development as each milestone was reached either on or ahead of schedule. SPD was established as the operator of the project, and intensive development initially focused on West Salym, the largest of the fields. Additionally, further development of the Upper Salym field was progressed and the Field Development Plan for Vadelyp was completed and submitted for approval.

As the development scaled-up over the course of 2004, so too did the SPD team managing the project, with staff numbers growing from 190 to 590. In order to meet licence requirements, it was essential that rapid progress be made and many of the initial senior managers in SPD were expatriates seconded from Shell. However, growth in the organisation has focused on replacing expats with Russian talent, and SPD is benefiting greatly from its Russian employees’ local knowledge, including field development techniques, accounting practices, and rules and regulations.

A significant effort has been put into ensuring that staff has been trained to the very highest standards, including Shell’s stringent Health, Safety and Environment (“HSE”) rules and practices and Business Assurance and Control rules and practices.

Throughout the organisational building process, the aim of the SPD management team has been to develop the best operating company in Russia, one that is able to perform in accordance with both Russian and international legislation and standards. These efforts were recognised not only by success in the field but also by the Russian Federation’s recognition of SPD with the ‘National Olympus Prize of Russian Federation’ as one of the best Oil and Gas companies in 2004.

Government support for SPD was also evident in April 2005 with the approval of extensions for the Upper Salym and West Salym licences. Based on the approved design documents the validity period has been extended until 31 December 2032 and 31 December 2034, respectively. Previous to the extension, licenses for both fields were to have expired on 7 September 2013.

West Salym

The West Salym field holds the most significant reserves (nearly 80%) of the Salym Group and thus, SPD’s priority is to bring the field into production as quickly as possible. Access to the remote field required construction of a 90 km long Communications Corridor road (“Comcor”), most of which was completed by the end of May 2004. Construction



Above and top right: CPF Construction.



Above: Drilling Supervisor.

of the major field infrastructure followed closely thereafter and all major contracts were awarded and development commenced on the Central Processing Facility ("CPF"), Base Camp, Power Lines, Export Pipeline, Well Pads, Infield Flowlines and other facilities. Long lead items including material for the 88 km Export Pipeline and CPF were ordered in 2004 and delivery began before the end of year. The production from West Salym is expected to peak with at least 120,000 bopd by 2009, and production from all three fields is expected to reach more than 150,000 bopd by 2009.

The CPF is an oil treatment facility at the heart of the West Salym field to which production wells from Upper Salym and Vadelyp will also be linked. The CPF will feature an oil treatment facility to remove water and stabilise the crude oil to meet specifications for shipment by Transneft, the Russian national oil transportation pipeline. The construction of the CPF, designed for 6 million tons of crude oil capacity (120,000 barrels per day) in the first phase, commenced before the end of 2004 and is on target to be completed before the 4th Quarter of 2005. To date, the CPF is more than 50% complete. A second phase of development of the CPF will parallel the growth in production, with total potential capacity of the facility capable of growing to more than 200,000 barrels per day. After crude oil produced from West Salym, Upper Salym and Vadelyp is treated at the CPF, it will be pumped through an 88 km export pipeline to the Custody Transfer Facility ("CTF") at Yuzhny Balyk, where it will tie into the Transneft trunk pipe line. Both the export pipeline and CTF are expected to be completed by

November 2005, which will signal the commencement of commercial production of more than 20,000 barrels per day (100%) from West Salym and Upper Salym.

The drilling programme is also progressing rapidly, with the first well spudded on schedule, on 30 April, 2004. This well was completed and put into production on 12 December 2004, a full year ahead of schedule. Two further West Salym drilling rigs were commissioned in May 2005, bringing to three the number of rigs in West Salym, with a fourth rig operating in Upper Salym. In order to increase drilling efficiency and reduce cost, wells are being batch drilled, i.e. drilling a series of 4 wells at a time with later completion with conductor sections and production casing. Before the end of 2004 a further five wells were drilled. By mid-year 2005, an additional 13 wells have been drilled (19 total) and 14 completed. Four wells were brought on-stream, with early production exceeding expectations, eg, wells are on average flowing at more than 500 bopd. A total of 33 producing wells will come on stream in West Salym by late 2005.

Upper Salym

SPD restored its operatorship of the Upper Salym field effective 1 January 2004. In order to preserve the field licences, Upper Salym had been initially developed and operated on a sole risk basis since 2001 by Sibir's OAO Evikhon. During 2004 production from Upper Salym totalled 259,000 barrels (710 barrels per day). Production was transported by truck and sold on the local market,

generating US\$2.7 million in revenue. The oil was sold 'wet' (untreated) and therefore the average netback price was a relatively low US\$10.40 per barrel.

In Upper Salym West, construction of Pad K1A was completed, in this, the most significant reservoir in terms of reserves, in the Upper Salym Field. Drilling commenced in November and, to date, 8 new wells have been drilled of a total of 20 wells on the pad. It is anticipated that Pad K1A will produce approximately 8,000 barrels per day following the completion of drilling from the pad in 2005. Total production from Upper Salym by the end of 2005 is expected to be as high as 9,000 barrels per day. Further exploration and appraisal, with subsequent development of Upper Salym is expected to ramp up production to nearly 20,000 bopd.

SPD has also been conducting further exploration in the Upper Salym Field, with over 600 km of seismic acquired

over the winter of 2004-2005. In 2004 SPD built an access road and an exploration pad for drilling of the first exploration well in the 'Bonus Structure', a newly discovered reservoir. Oil was encountered at the prognosed depth with a net pay of more than 16 metres. The production test of the well was extended into 2005 and it is expected that the discovery of the 'Bonus Structure' will significantly increase the reserves of Upper Salym (up to 30%).

Vadelyp

Development of the third Salym Field, Vadelyp, has been brought forward from 2009 to 2006. The Technological Schema (Field Development Plan prepared in accordance with Russian requirements) was prepared and presented to the Russian authorities in 2004. Approval of the Schema was attained and the SPD Supervisory Board approved the US\$250 million development plan in December 2004.

The Group's interest in commercial reserves of oil as at 1 January 2004 and 31 December 2004 are included in the unaudited table below:

Operated assets

UK classification	P1 [mboe]	P2 [mboe]	P1 + P2 [mboe]
Russia			
Magma fields			
At 1 January 2004	28,019	9,084	37,103
Production	(1,745)	–	(1,745)
Total Operated assets at 31 December 2004 ⁽ⁱ⁾	26,274	9,084	35,358

Salym fields

In the early part of 2004 SPD provided the Company with estimates of the petroleum resources within the Salym group of fields. SPD adopted the Shell classification of reserves and the reserve numbers were supported by the field development plan.

In accordance with the estimates produced by the operator SPD, the total proved, expectation and scope for recovery reserves totalled 812 million bbls of which 406 million bbls are attributable to Siber.

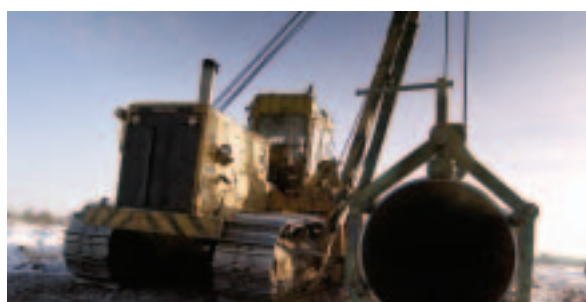
The equivalent reserve number approved in accordance with the Russian classification is 1,100 million bbls of which 550 million bbls are attributable to Siber.

The difference between these numbers lies principally in the exclusion from the Shell numbers of the lower reservoirs.

(i) See note 28(v)



Above and right: Building the Export Pipeline.



Financial Review

Production

The Group's production for 2004 was 1,875,331 bbls (2003: 1,826,189 bbls), comprising Magma's production of 1,745,331 bbls (2003: 1,657,411 bbls) and Evikhon's share of SPD's production of 130,000 bbls (2003: 168,778 bbls).

Turnover and Cost of Sales

Turnover for 2004 amounted to £168.1 million compared to £17.4 million in 2003. Sales of crude oil and oil products in 2004 were 1,035,379 bbls and 9,861,590 bbls respectively. (2003: crude oil 1,474,053 bbls and oil products 421,005 bbls). Increase of oil products sale was due to increased quota for crude oil refining to 1,460,000 bbls per month in 2004 from 109,500 bbls per month in 2003.

The Group's gross profit excluding charges for decommissioning and depletion in 2004 was £23.1 million compared to £5.6 million for 2003, a rise of 413%. Gross profit of oil sales increased to £6.5 million in 2004 from £4.8 million in 2003, gross profit of oil products sales increased to £16.6 million in 2004 from £0.8 million in 2003. This substantial increase in gross profit is attributable to two factors. First, Sibir has set up as planned its own trading operation which, utilising Sibir's access to the Moscow Oil Refinery ("MOR"), contributed 92% of the gross turnover. Second, domestic and export crude oil margins have increased due to higher crude oil prices.

Domestic sales of crude oil decreased to £2.1 million in 2004 from £6.8 million in 2003. The decrease of the volumes sold domestically is due to maximising export of crude oil sales

and applying unexported crude oil volumes to be refined at MOR. Export sales of crude oil increased to £11.7 million in 2004 from £6.1 million in 2003 due to increase of export sales prices by 55% and increase in export volumes by 45%.

Domestic sales of refined products increased to £105.0 million in 2004 from £1.8 million in 2003 due to the combined effect of increased volumes and selling prices. Export sales of refined products increased to £49.3 million in 2004 from £2.7 million in 2003.

Administration Expenses

The Group's administrative and general expenses in 2004 were £14.9 million compared to £7.7 million for 2003. After excluding from these figures the effect of foreign exchange movements and other non-recurring items, the Group's administrative expenses for 2004 have increased by £4.9 million which has occurred as a result of significant corporate advisory services and legal fees incurred during the year.

Operating Loss

The operating loss for the year occurs as a result of the Group's share of the operating losses from the SPD joint venture and the effect of the exceptional fee paid to Bennfield Limited (£16.4 million). After these items are excluded the Group made an operating profit of £6.5 million compared to an operating loss of £4.0 million in 2003. This significant turnaround is due to the higher gross profit referred to above.



Above and right: Laying pipe.

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. Under UK GAAP Sibir has to accrue its share of SPD losses, but it is clear that, all else being equal, following the commencement of significant production by the end of 2005, administration expenses of SPD will be more than covered by gross profit.

Administrative expenses (£14.9 million), the share of operating loss in SPD (£18.4 million), the loss on disposal of fixed assets of (£2.8 million) and the fee for the services of Bennfield Limited (£16.4 million) together exceeded gross profit of £21.3 million, resulting in a net loss for the Group in 2004 of £30.8 million.

Interest Income

The Group's net interest income in 2004 was £0.7 million compared to £1.8 million interest expense in the previous period. The increase has arisen as a result of the interest receivable on the Group's loans to SPD being in excess of the total interest payable for the year.

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 period 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 various currency risks relating to its Russian operations. The balance of these revenues is received in roubles following sales to the Russian domestic 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.



Above and right: A new day dawns in Salym.

Interest Rate and Liquidity Policy

The Group finances its operations through trade finance and short term loans. In 2000 the Company issued £20 million of 15% convertible loan stock which was redeemable on 30 June 2002 and subsequently extended at an interest rate of 11% to 30 June 2004. During the first six months of 2004 a total of 288,643 new ordinary shares of 10p each were issued as a result of the conversion of £48,200 of the loan notes and on 30 June 2004 the remaining convertible loans notes totalling £676,926 were redeemed. In summary, of the £20 million issued in 2000, a total of £19,221,074 had been converted into new ordinary shares and £778,926 had been redeemed for cash.

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, 2005

Henry O Cameron
Chief Executive Officer
30 June, 2005

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 New Combined Code and are continually reviewing the requirements.

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

- per A.1.2 and per A3.2 the Company does not have either a senior nor independent non-executive directors, however it has two non-executive directors, both of whom are shareholders in the Company.
- per A.4.1 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 A.5.2 the Board does not have a formal policy for the directors to obtain independent professional advice at the Group's expense.
- per B.1.1 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 C.3 the Audit Committee did not formally meet during 2004 however the non-executive Chairman of the Group met with the auditors during the year. It is the intention to strengthen the Audit Committee as and when new non-executive directors are appointed.
- per D.2.1 and D2.2 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 New 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 25. 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 2004 the Board comprised four executive directors and two non-executive directors, whose details are included on page 23.

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.

Mr. Stock and Mr. Savostyanov stood down from the Board on 20 December 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 in October 2003, comprises all non-executive directors. The Company currently has two non-executive Directors, Mr. Guinness and Mr. Tchigirinski, who met frequently during the year and whilst the Audit Committee did not formally meet during 2004 it is the intention that this situation will not continue as and when new non-executive Directors are appointed to the Board. The Audit Committee will then, once again, provide a forum for reporting by the Group's external auditors. It is the intention that these meetings will be attended, by invitation, by the Finance Director and the 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 was chaired by Mr. Stock until he stood down as a director on 20 December 2004. It is the intention of the Board to appoint a new Chairman in 2005.

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 to 18.

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 up to 20 December 2004 when he stood down as a Director. 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.

At an Extraordinary General Meeting held on 20 December 2004 Shareholders passed a resolution to increase the limit of £150,000, referred to in the paragraph above, up to US\$29,500,000 for the year in which the Company makes a single payment to Bennfield Limited in consideration for certain past services provided by it and its representative Chalva Tchigirinski to the Company outside his ordinary duties as a director. After the payment has been made the limit reverts back to £150,000. The payment was settled in the year by the issue of 6,555,555 new ordinary shares at a price of £2.50 based on an exchange rate of US\$1.8 to the £.

Annual Remuneration of Executive Directors

The remuneration paid to the directors in the year ended 31 December 2004 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	144,900	6,900
	US\$	US\$
S Detmer	250,000	–

Directors' remuneration

	Salary £000	Bonus £000	Benefits £000	Pension Contributions £000	Fees £000	Total 2004 £000	Total 2003 ^(vi) £000
H O Cameron	220	–	1	22	–	243	243
A Betsky ^[vi]	158	–	2	7	–	167	100
S Detmer ^[i]	116	78	46	–	–	240	–
W L S Guinness	–	–	–	–	40	40	40
C Tchigirinski	–	–	–	–	15	15	15
K-H Stock ^[ii]	–	–	–	–	15	15	15
P Gregory ^[ii]	–	–	–	–	4	4	15
U Haener	–	–	–	–	15	15	15
Y Savostyanov ^{[i] & [iii]}	–	–	–	–	14	14	–
V Milstein ^[iv]	–	–	–	–	–	–	10
N Berry ^[v]	–	–	–	–	–	–	11
	494	78	49	29	103	753	464

The emoluments of the highest paid director were £221,000 before pension contributions during the year ended 31 December 2004 (2003 – £221,000). Pension contributions of the highest paid director were £22,000 during the year ended 31 December 2004 (2003 – £22,000).

[i] Appointed 3 February 2004

[ii] Resigned 3 February 2004

[iii] Resigned 20 December 2004

[iv] Resigned 8 September 2003

[v] Resigned 30 October 2003

[vi] Includes £13,000 of remuneration paid in 2004 which was in respect of 2003.

[vii] Two directors accrued pension benefits during 2004. For 2003 the directors' emoluments totalled £437,000: pension contributions £27,000.

In addition to the remuneration detailed in the table above the Company made a single payment to Bennfield Limited in consideration for certain past services provided by it and its representative Chalva Tchigirinski to the Company outside his ordinary duties as a director. This was approved by shareholders at an Extraordinary General Meeting held on 20 December 2004 and was for a total of US\$29,500,000. The payment was settled in the year by the issue of 6,555,555 new ordinary shares at a price of £2.50 based on an exchange rate of US\$1.8 to the £.

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

At an Extraordinary General Meeting held on 20 December 2004 shareholders approved a Capital Reorganisation scheme which effected a share consolidation and subsequent sub-division to reduce the number of authorised and issued ordinary shares. The effect of the Capital Reorganisation is explained in more detail on page 19.

As a result of this Capital Reorganisation the Share Options previously in issue have been consolidated. For every ten share options previously held each optionholder now has one new share option which is now exercisable at the consolidated price of 100p whereas it was previously exercisable at 10p.

Details of the Directors' Share Options for the year ended 31 December 2004 are as follows:

Name of Director	01.01.2004 '000	Reorganisation '000	Granted '000	Lapsed '000	31.12.2004 '000	Exercise Price	Exercisable From	Exercisable To
H O Cameron	1,500	(1,350)	–	–	150	100p	30.06.2000	09.06.2010
	750	(675)	–	–	75	100p	31.12.2000	09.06.2010
	750	(675)	–	–	75	100p	31.12.2001	09.06.2010
	3,000	(2,700)	–	–	300			
S Detmer ⁽ⁱ⁾	–	–	100	–	100	195p	22.12.2004	21.12.2013

(i) Granted on 22 December 2004.

No share options have been exercised during the year.

Directors' Report

The Directors present their report and the Group financial statements for the year ended 31 December 2004.

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 £30,820,000 (2003 – loss £12,983,000). 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 2004 a total of 288,643 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 £48,200 of convertible loan notes into shares.

On 22 October 2004, following Bennfield Limited's exercise of its option, a total of 171,647,731 new ordinary shares of 10p each at the average loan note conversion price of 11.655p were issued for a total realisation of £20,005,000.

At an Extraordinary General Meeting held on 20 December 2004 Shareholders approved a Capital Reorganisation scheme which was designed to make the number of ordinary shares in issue more manageable and the share price more attractive to potential investors.

In summary the Capital Reorganisation consisted of the following steps:

- (i) an issue of six new Ordinary Shares to ensure that there were no fractions of shares remaining following the reorganisation;
- (ii) every ten Ordinary Shares in issue were consolidated into one ordinary share of 100p and every ten authorised but unissued Ordinary Shares were consolidated into one ordinary share of 100p;
- (iii) each ordinary share arising as a result of 9ii) above was then sub-divided into one New Ordinary Share of 10p and one Deferred Share of 90p;

As a result of the Capital Reorganisation the issued ordinary share capital of the Company was reduced from 1,918,474,210 ordinary shares to 191,847,421 New Ordinary Shares.

It is the intention that the Deferred Shares, which have arisen as a result of the above and which carry no rights to vote or participate in dividends, will be cancelled in due course.

At the Extraordinary General Meeting held on 20 December 2004 Shareholders also approved two further issues of New Ordinary Shares.

These issues were to Bennfield Limited and consisted of the issue of 6,555,555 New Ordinary Shares, in satisfaction of a cash payment due for services rendered to the Company, and 4,757,826 New Ordinary Shares in satisfaction of a loan from Bennfield Limited of \$21,410,219.

As a result of the above the total number of New Ordinary Shares in issue as at 31 December 2004 was 203,160,802.

Also at the Extraordinary General Meeting Shareholders approved the issue of up to 34,066,631 for the acquisition of Hitchens Global S.A. from Bennfield Limited and also the payment of cash and the issue of 1,400,000 New Ordinary

Shares, if applicable for the acquisition of 10% of Evikhon from Dana Petroleum Limited. These transactions required various approvals to be obtained before they can be completed and an update on their current status can be found on page 5 and in the “Events since the Balance Sheet Date” note below.

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 was 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 the maturity date of 30 June 2004 a total of £19,221,074 had been converted into ordinary shares and £778,926 had been redeemed for cash. The security referred to above was also released in 2004.

Events since the Balance Sheet Date

(i) Derivative Minority Shareholder Claim

On 3 May, the Company announced that it had received from Stephen Alexander of ClassLaw Solicitors LLP a faxed copy of a Freezing Injunction Order granted on 28 April in the High Court of Justice Chancery Division in the UK. The order was made against Bennfield Limited, Chalva Tchigirinski himself and Alexander Tchigirinski, his brother (together referred to as the Respondents). The Injunction prohibits the Respondents from selling, or in any way dealing with any of their shares in Sibir or Bennfield, save in circumstances where the Respondents have paid £30 million into Court.

On 21 June 2005 and after three days of submissions from legal counsel, the hearing to determine whether the case should proceed to trial was concluded and Sibir's Chairman decided to accept the suggestion of the judge and commission a legal enquiry by an independent and reputable lawyer into such matters as the judge feels need further exploration. It is anticipated that the result will be published in August.

(ii) Anti-Monopolies Approval and Completion of Acquisition of Evikhon Shares Acquired from Dana Petroleum

On 13 June 2005 the Company announced that it had received the requisite approval from Russia's Federal Anti-Monopoly Service and has completed the transaction acquiring the 10% interest previously owned by Dana in Evikhon, Sibir's Russian subsidiary which is partnered with Shell in a 50/50 joint venture to develop the Salym group of oil fields in Western Siberia.

As announced on 10 March 2005, Sibir paid \$28 million cash for Dana's interest and exercised its right under the acquisition agreement with Dana to nominate a third party to hold the shares on its behalf, pending Anti-Monopoly approval. The shares were held by Strand Associates Limited, the holding company of Strand Partners, Sibir's nominated advisor. With Anti-Monopoly approval the shares were transferred to Sibir's control effective 3 June 2005.

Completion of the acquisition brings Sibir's total interest in Evikhon to 92%. The remaining 8% of Evikhon will be acquired upon completion of the acquisition of Hitchens Global SA, a transaction which was previously agreed and approved by Sibir shareholders at the EGM held on 20 December 2004.

(iii) Moscow Oil and Gas Company

At an MOGC shareholders meeting held on 17 June 2005 it was reported to and accepted by the shareholders that CFC and Sibir owned 68.51% and 31.49% respectively of the shares of MOGC which, in the case of Sibir, were as a consequence of the first transfer of its Yugraneft shares. As has previously been announced it was agreed that following the discovery by MOGC of the wrongful dilution to less than 1% of Sibir's interest in Sibneft Yugra, the Boards of CFC, MOGC and Sibir agreed on the need to preserve the concept of MOGC forming part of an integrated oil group and further agreed that Sibir would substitute the Sibneft-Yugra assets with other Sibir assets. It was subsequently agreed that Sibir would contribute its 95% interest in the Magma Oil Company. Sibir representative Henry Cameron declared that the shares issued to Sibir were held by it in trust for CFC until Sibir had contributed its investment in Magma Oil Company. This declaration was minuted and the resultant capacity in which Sibir held the shares was recognised by CFC.

In that regard, the Company anticipates that the requisite Anti-Monopoly approvals will be completed in July immediately upon which the transaction will also be completed.

(iv) Sibneft Yugra

In January 2005, OAO Yugraneft, the holding company for the Company's original 50% stake in the Sibneft Yugra joint venture filed for bankruptcy in the Moscow Arbitration Court. On 22 June 2005 the Company announced that, on 20 June, the Ninth Appellate Arbitration Court upheld a 19 April ruling by the Moscow Arbitration Court and in so doing denied Sibneft's attempts to block the Yugraneft bankruptcy action. The Administrator now has 18 months to draft, agree and effect a plan for the restitution of the Company's assets and its return to financial solvency. As an appointed Court official he is empowered to carry out an investigation in a manner which exceeds the powers of Yugraneft itself. The Administrator is authorised to apply to the court to:

- Restore missing assets;
- Declare void any interested party transaction or otherwise illegal transactions designed to harm the interests of Yugraneft; and
- Declare void any illegal preferred payments or 'gratuitous alienations'.

(v) Magma

On 23 May 2005, Sibir announced that the results of a feasibility study on oil recovery from the Yuzhnoye oilfield had resulted in an increase of almost 30 million barrels in reserves as measured by the Russian C1 + C2 classification. The feasibility study was carried out by Magma in accordance with its obligations under the conditions of the Yuzhnoye licence, together with VNIINEft, a leading Russian petroleum institute. The work involved appraisal of 3 new wells, 489 km of 2D seismic, and geologic and hydronomic modelling of the reservoir. The study was presented to the Russian Ministry of Natural Resources which approved an increase in the estimated remaining C1+C2 recoverable reserves in the Yuzhnoye oilfield to 10.691 million tonnes (80.5 million barrels) compared to the previous Russian official number of 6.728 million tonnes (50.7 million barrels). Of this total, the C1 category (Russian "proved") increased to 9.784 million tonnes (73.7 million barrels). Since it is anticipated that Magma will be used in an all-Russian transaction as a contribution to the creation of MOGC, it is appropriate that future reporting of Magma's reserves will use as a base these updated numbers utilising the Russian classification standard.

Directors

The Directors holding office at the end of the year ended 31 December 2004 had the following interests in the New Ordinary Shares of the Company:

	31 December 2004		1 January 2004 or the date of appointment, if later		
	New Ordinary Shares ⁽ⁱ⁾	Options ⁽ⁱⁱ⁾	Ordinary Shares	Options	Convertible Loan Stock
W L S Guinness ⁽ⁱⁱⁱ⁾	1,198,111	–	11,981,114	–	–
H O Cameron	1,321,427	300,000	13,214,279	3,000,000	–
A Betsky	–	–	–	–	–
C Tchigirinski ⁽ⁱⁱⁱ⁾	89,021,413	–	635,432,588	–	–
S Detmer	–	100,000	–	–	–
U Haener	3,962,366	–	–	9,623,666	–

All the holdings are beneficially held unless otherwise indicated.

⁽ⁱ⁾ At the Extraordinary General Meeting of the Company held on 20 December 2004, it was resolved that the Company's issued share capital be reorganised on the basis of one new ordinary 10p share and one 90p deferred share for every ten ordinary shares of 10p held.

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

⁽ⁱⁱⁱ⁾ Held by a Company owned by a trust in which Mr Guinness has a discretionary 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 2004 and 30 June 2005.

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.

Mr Evgeny Savostyanov and Mr Karl-Heinz Stock left the Board on 20 December 2004 having decided not to stand for re-election to the Board at the Annual General Meeting held on that date.

Board Changes during 2005

On 8 March 2005 Mr Urs Haener, previously a non-executive Director of the Company, accepted an executive appointment as Deputy Chief Executive Officer.

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

Biographical information of Directors

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

Mr. Guinness, age 65, 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 65, 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 35, 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 41, 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. Chalva P. Tchigirinski Non-Executive Director

Mr. Tchigirinski, age 55, 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 Deputy Chief Executive Officer

Mr. Haener, age 52, 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.

Substantial Shareholders

At 30 June 2005 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	89,021,413	43.82
M & G Investment Management Limited	11,440,929	5.63
L-R Global Partners	6,948,646	3.42

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 2004, the Company had an average of 26 days' purchases outstanding in trade creditors.

Conversion to IFRS

To satisfy its reporting obligations, Sibir will be drawing up its financial statements for 2007 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 2005

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 2004, 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 2004 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 2005

Group Profit and Loss Account

For the year ended 31 December 2004

	Notes	Continuing operations 2004 €000	Exceptional items 2004 €000	Total 2004 €000	2003 €000
Turnover; group and share of joint venture's turnover	2	168,870	–	168,870	17,376
Less:share of joint venture		(728)	–	(728)	–
Group turnover		168,142	–	168,142	17,376
Cost of sales					
Depletion of oil and gas properties	3	(1,725)	–	(1,725)	(1,645)
Decommissioning charge		–	–	–	(303)
Cost of sales		(145,053)	–	(145,053)	(11,750)
Gross profit		21,364	–	21,364	3,678
General and administrative expenses		(14,903)		(14,903)	(7,727)
Fee for services of Bennfield Limited	5	–	(16,389)	(16,389)	–
Group operating profit/(loss)	4	6,461	(16,389)	(9,928)	(4,049)
Share of operating loss in joint venture		(15,185)	–	(15,185)	(7,793)
Operating loss:					
Group and share of joint venture		(8,724)	(16,389)	(25,113)	(11,842)
Loss on disposal of fixed assets	5	–	(2,807)	(2,807)	–
Loss on ordinary activities before interest and taxation		(8,724)	(19,196)	(27,920)	(11,842)
Interest receivable				3,010	20
Interest payable	8				
Group				(2,318)	(1,833)
Joint venture				(3,236)	–
Loss on ordinary activities before taxation				(30,464)	(13,655)
Tax on profit on ordinary activities	9			(3,494)	(1,723)
Loss on ordinary activities after taxation				(33,958)	(15,378)
Minority interests – equity				3,138	2,395
Loss for the financial year attributable to the members of the parent company				(30,820)	(12,983)
Basic & diluted loss per share (pence)	10			(17.32)	(8.10)

Group Statement of Total Recognised Gains and Losses

For the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Loss for the year attributable to members of the parent company	21	(30,820)	(12,983)
Exchange difference on re-translation of net investments and related borrowings	21	(1,631)	(4,148)
Total recognised gains and losses relating to the year		(32,451)	(17,131)
Prior year adjustment	1	–	(20,988)
Total gains and losses recognised since last annual report		(32,451)	(38,119)

Group Reconciliation of Shareholders' Funds

For the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Total recognised gains and losses		(32,451)	(17,131)
New share capital subscribed	20	18,325	17,970
Share premium on shares issued less issue costs	21	30,012	8,107
Shares to be issued	20	2,000	–
Total movements during the year		17,886	8,946
Shareholders' funds at 1 January (2003 originally £157,423,000 before deducting prior year adjustment of £20,988,000)		145,381	136,435
Shareholders' funds at 31 December		163,267	145,381

Group Balance Sheet

At 31 December 2004

	Notes	31 December 2004 £000	31 December 2003 £000
Fixed Assets			
Tangible assets	11	163,925	173,337
Other investments	12	6	6
		163,931	173,343
Current Assets			
Stocks	13	7,250	631
Debtors			
Amounts falling due within one year	14	36,345	10,148
Amounts falling due after more than one year	14	73,346	2,854
	14	109,691	13,002
Cash at bank and in hand		4,362	9,461
		121,303	23,094
Creditors: amounts falling due within one year	15	(52,340)	(28,313)
Net Current Assets/(Liabilities)		68,963	(5,219)
Total Assets Less Current Liabilities		232,894	168,124
Creditors: amounts falling due after more than one year	16	(23,365)	–
Provision for Deficit In Joint Venture	12		
– Share of gross assets		73,640	10,648
– Share of gross liabilities		(101,594)	(11,480)
		(27,954)	(832)
Provision for Liabilities and Charges	19	(1,133)	(1,840)
		180,442	165,452
Minority Interest – Equity		(17,175)	(20,071)
		163,267	145,381
Capital and Reserves			
Called up share capital	20	192,979	174,654
Share premium account	21	69,268	39,256
Shares to be issued	20	2,000	–
Capital redemption reserve	21	14,396	14,396
Profit and loss account	21	(115,376)	(82,925)
Equity Shareholders' Funds		163,267	145,381

H Cameron
Director
30 June 2005

A Betsky
Director
30 June 2005

Company Balance Sheet

At 31 December 2004

	Notes	31 December 2004 £000	31 December 2003 £000
Fixed Assets			
Tangible assets	11	93	35
Investments	12	127,655	105,450
		127,748	105,485
Current Assets			
Debtors:			
amounts falling due within one year	14	2,071	2,142
amounts falling due after more than one year	14	60,178	50,163
		62,249	52,305
Cash at bank and in hand		778	7,250
		63,027	59,555
Creditors: amounts falling due within one year	15	(19,228)	(23,829)
Net Current Assets		43,799	35,726
Total Assets Less Current Liabilities		171,547	141,211
Creditors: amounts falling due after more than one year	16	(7,740)	–
Provisions for liabilities and charges	19	(811)	(811)
		162,996	140,400
Capital and Reserves			
Called up share capital	20	192,979	174,654
Share premium account	21	69,268	39,256
Shares to be issued	20	2,000	–
Capital redemption reserve	21	14,396	14,396
Profit and loss account	21	(115,647)	(87,906)
Equity Shareholders' Funds		162,996	140,400

H Cameron

Director

30 June 2005

A Betsky

Director

30 June 2005

Group Statement of Cash Flows

At 31 December 2004

	Notes	Year ended 31 December 2004 €000	Year ended 31 December 2003 €000
Net cash flow from operating activities	22(a)	(9,012)	(4,722)
Returns on investments and servicing of finance	22(b)	(2,337)	(1,108)
Taxation	22(c)	(3,596)	(823)
Capital expenditure and financial investment	22(d)	(52,533)	(17,869)
Net cash outflow before financing		(67,478)	(24,522)
Financing	22(e)	62,379	30,237
(Decrease)/increase in Cash		(5,099)	5,715

Group Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes	2004 €000	2003 €000
(Decrease) / Increase in cash		(5,099)	5,715
Cash outflow for repayment of convertible loan notes		677	–
Cash outflow for repayment of borrowings		64,603	3,845
Cash inflow from receipt of loans		(107,654)	(10,899)
Change in net debt resulting from cash flows		(47,473)	(1,339)
Exchange differences		2,366	2,027
Other non cash movements	22(f)(i)	12,046	2,894
Movement in Net Debt		(33,061)	3,582
Net Debt at beginning of Period		(14,416)	(17,998)
Net Debt at end of Period	22(f)	(47,477)	(14,416)

Notes to the Financial Statements

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.

Going concern

At the date of approving these financial statements, the Company is negotiating project finance facilities of up to \$150 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, the Directors have alternative financing strategies which they would implement.

If this financing and other alternative sources of finance were not successful and the Group is unable to secure sufficient funding, it may not be appropriate to prepare the accounts on a 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 both raising project finance, along with the feasibility of the alternative financial strategies, and therefore believe it is appropriate for the financial statements to be prepared on a going concern basis.

Prior year adjustment – 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 was corrected in the 2003 financial statements, by restating the prior year comparatives. This restatement resulted in the recognition of an additional £20.99 million loss on impairment of the investment in Sibneft Yugra.

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 2004. 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 2004 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 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 of the company at cost less provisions for impairment. All other fixed asset investments are stated in the financial statements of the company and the Group 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, refined products 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 2004, 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.

Turnover

Destination	2004 €000	2003 €000
Russian Federation	103,551	8,650
Germany	12,466	–
Belarus	2,722	–
Switzerland	49,403	3,926
USA	–	2,662
Slovakia	–	1,785
Finland	–	207
Ukraine	–	146
Total	168,142	17,376

Turnover analysis of Joint Venture

Destination	2004 €000	2003 €000
Russian Federation	728	–

3 Cost of Sales and Operating Expenses

	2004 £000	2003 £000
Cost of sales	145,053	11,750
Depletion of oil and gas properties	1,725	1,645
Decommissioning charge	–	303
Administration expenses	11,905	7,009
Exchange (gains)/losses	3,135	(796)
Other (income)/expenses	(137)	1,514

4 Operating Loss

This is stated after charging/(crediting):

	2004 £000	2003 £000
Auditors' remuneration		
– Group audit services*	288	250
– Non-audit services relating to tax and advisory services	83	21
	371	271

* £50,000 (2003 – £50,000) relates to the Company

Depletion and decommissioning of oil and gas properties	1,725	1,948
Depreciation of other tangible fixed assets	38	244
Total depreciation charge	1,763	2,192
Operating lease rental – land and buildings	183	183

5 Exceptional Items

	2004 £000	2003 £000
Recognised in arriving at operating loss:		
Fee for services of Bennfield Limited	16,389	–
Recognised after arriving at operating loss:		
Loss on disposal of fixed assets	2,807	–
Minority interest share of loss on disposal of fixed assets	(505)	–

6 Staff Costs

Staff costs, including executive directors, were as follows:

	2004 £000	2003 £000
Wages and salaries	3,786	2,935
Social security costs	265	356
Other pension costs	235	319
	4,286	3,610

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

	2004 No	2003 No
Management and administration	118	118
Technical and operational	150	148
	268	266

7 Directors' Emoluments

	2004 £000	2003 £000
Aggregate directors' emoluments	724	437
Company contributions to personal pension schemes	29	27

The emoluments of the highest paid director were as follows:

	2004 £000	2003 £000
Emoluments	221	221
Company contributions to personal pension schemes	22	22

S Detmer was awarded 100,000 share options on 22 December 2004 at an exercise price of 195p. No other director was awarded or exercised share options in the year.

There are two directors in money purchase pension schemes.

8 Interest Payable and Similar Charges

	2004 £000	2003 £000
Bank interest	676	21
Convertible loan interest	38	288
Other loan interest	1,564	1,488
	2,278	1,797
Unwinding of discount on decommissioning provision	40	36
Group interest payable and similar charges	2,318	1,833
Share of joint venture interest	3,236	-
	5,554	1,833

9 Tax on Profit on Ordinary Activities

The taxation charge is made up as follows:

	2004 £000	2003 £000
UK corporation tax		
Current tax on profit on ordinary activities before share of associates and J.V. projects	–	–
	–	–
Foreign tax		
Current tax on profits for the year	4,148	1,138
Total current tax	4,148	1,138
Deferred taxation		
Originating and reversal of timing differences	(654)	585
	3,494	1,723

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:

	2004 £000	2003 £000
Loss on ordinary activities before tax	(30,464)	(13,655)
Loss on ordinary activities before tax at the standard UK corporation tax rate of 30% (2003 – 30%)	(9,139)	(4,097)
Effects of:		
Disallowed expenses and non-taxable income	6,889	4,658
Depreciation in excess of capital allowances	512	480
Other timing differences	308	450
Current year UK tax losses not utilised	6,791	434
Foreign Exchange differences	(54)	–
Lower taxes on overseas earnings	506	(283)
Overseas tax losses carried forward	(484)	–
Utilisation of prior year unrecognised overseas tax losses	(1,181)	(504)
Total current tax before share of associates and joint ventures	4,148	1,138

Factors affecting future tax charge

The Group has tax losses of approximately £46,832,492 (2003 – £22,654,000) 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, 2002 and 2003 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 £16,554,500 (2003 – £15,564,000), 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 £30,820,000 (2003 – loss £12,983,000).

The weighted average number of shares in issue for 2004 and 2003 have been adjusted to take into account the Capital Reorganisation scheme which was approved by Shareholders on 20 December 2004 and which is explained in more detail on page 19.

The weighted average number of ordinary shares in issue during the year was 177,960,404 (2003 – adjusted 160,128,245).

Potential ordinary shares resulting from the exercise of the share options and the issue of shares agreed to be issued have an anti-dilutive effect and, as such, were excluded from the calculation of diluted loss per share.

11 Tangible Fixed Assets

Group

	Exploration and development costs ⁽ⁱ⁾ £000	Plant and equipment £000	Total £000
Cost:			
At 1 January 2004	190,964	158	191,122
Currency movements	(4,638)	–	(4,638)
Additions	6,174	97	6,271
Disposals	(826)	–	(826)
Disposals to joint venture	(11,546)	–	(11,546)
At 31 December 2004	180,128	255	180,383
Depreciation:			
At 1 January 2004	17,673	112	17,785
Currency movements	(1,363)	–	(1,363)
Depreciation on disposals to joint venture	(1,544)	–	(1,544)
Provided during the year	1,725	38	1,763
Disposals	(183)	–	(183)
At 31 December 2004	16,308	150	16,458
Net book value at 31 December 2004	163,820	105	163,925
Net book value at 31 December 2003	173,291	46	173,337

(i) The prior year comparatives have been changed to comply with the current year presentation.

Company

	Plant and equipment £000	Total £000
Cost:		
At 1 January 2004	100	100
Additions	97	97
At 31 December 2004	197	197
Depreciation:		
At 1 January 2004	65	65
Provided during the year	39	39
At 31 December 2004	104	104
Net book value at 31 December 2004	93	93
Net book value at 31 December 2003	35	35

12 Investments

Group

	Unlisted £000	Listed £000	Total £000
Cost:			
At 1 January 2004	24,266	6	24,272
At 31 December 2004	24,266	6	24,272
Amounts provided:			
At 1 January 2004	24,266	–	24,266
Charge	–	–	–
At 31 December 2004	24,266	–	24,266
Net book value:			
At 31 December 2004	–	6	6
At 31 December 2003	–	6	6

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 2004	135,450	4,388	6	139,844
Additions (i)	–	22,205	–	22,205
At 31 December 2004	135,450	26,593	6	162,049
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 2004	30,006	4,388	–	34,394
Charges	–	–	–	–
At 31 December 2004	30,006	4,388	–	34,394
Net book value:				
At 31 December 2004	105,444	22,205	6	127,655
At 31 December 2003	105,444	–	6	105,450

(i) On 29 June 2004 the Company increased its investment in its subsidiary Evikhon by capitalising its loan. The loan was for US\$40,269,000 (£22,205,000).

(a) The market value of the investment in Fortune Oil PLC, a company listed on the London Stock Exchange, was £33,750 at 31 December 2004 (2003 – £18,750).

(b) Subsidiary undertakings

The Group's subsidiary undertakings at 31 December 2004 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
Expid Holdings Limited	Cyprus	Ordinary	100%	Investment holding
Yaklort Holdings Limited	Cyprus	Ordinary	100%	Investment holding
Visini Holdings Limited	Cyprus	Ordinary	100%	Investment holding
Labico Holdings Limited	Cyprus	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
Moscow Oil International Limited	England & Wales	Ordinary	100%	Dormant

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%	Dormant
EuroSov Petroleum (UK) Ltd	England & Wales	Ordinary	100%	Dormant
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
Investment in Joint Venture				£000
At 1 January 2004				(832)
Loss for the year				(18,421)
Free carry adjustment ⁽ⁱ⁾				(10,073)
Exchange differences				1,372
At 31 December 2004				(27,954)

(i) The free carry adjustment is the amount required to adjust that part of the free carry, set off against the assets of the Group's subsidiary Evikhon in 2003, which has now been credited to the share of the joint venture's assets in accordance with the SORP.

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

	2004 £000	2003 £000
Fixed assets	44,636	–
Current assets	29,004	10,648
Share of gross assets	73,640	10,648
Liabilities due within one year	(28,569)	(7,699)
Liabilities due after more than one year	(73,025)	(3,781)
Share of gross liabilities	(101,594)	(11,480)
Share of net liabilities	(27,954)	(832)
Turnover	728	–
Loss before tax	(18,421)	(7,793)
Taxation	–	–
Loss after tax	(18,421)	(7,793)

There is some uncertainty regarding the deductibility of expenses incurred by the Moscow branch of the joint venture, SPD which may be challenged by the tax authorities. The total amount of the Moscow branch expenses included in the loss carried forward is \$23 million; resulting in a deferred tax asset of \$5.5 million. Of which \$2.75 million is Evikhon's share and is included as a reduction in the share of gross liabilities above.

13 Stocks

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Oil products	4,484	–	–	–
Raw materials and consumables	2,766	631	–	–
	7,250	631	–	–

The difference between the purchase price or production cost of stocks and their replacement cost is not material.

14 Debtors

Amounts falling due within one year:

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Trade debtors	19,337	2,371	–	–
Amounts owed by subsidiary undertakings	–	–	1,471	2,005
VAT receivable	13,420	5,320	–	–
Other debtors	1,145	1,620	6	34
Deferred acquisition costs	500	–	500	–
Prepayments and accrued income	1,943	837	94	103
	36,345	10,148	2,071	2,142

Amounts falling due after more than one year are:

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Amounts owed by subsidiary undertakings [i]	–	–	24,768	47,309
Other debtors [ii]	71,079	–	33,143	–
Prepayments and accrued income	2,267	2,854	2,267	2,854
	73,346	2,854	60,178	50,163

[i] Amounts owed by subsidiary undertakings include interest free and interest bearing loans of £14,713,000 (2003 – £36,349,000) due from Evikhon and interest free and interest bearing loans of £10,055,000 (2003 – £10,961,000) due from Magma. Interest is charged on the interest bearing loans at the US Dollar six month Libor rate plus 4%.

[ii] Other loans include amounts owed by Salym Petroleum Development NV, the Group's Joint Venture with Shell's Salym Development B.V, a member of the Royal Dutch Shell Group. The total amount outstanding as at the end of the year was £70,824,000 (US\$136,000,000). The loans are interest bearing with interest being charged at the US Dollar six month Libor rate plus 5%.

15 Creditors: amounts falling due within one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Convertible loan notes (Note 17)	–	725	–	725
Trade creditors	11,954	2,461	–	–
Amounts owed to subsidiary undertakings	–	–	10,234	10,436
Taxation and social security	6,872	856	20	16
Other creditors	24	26	24	26
Accruals and deferred income	5,016	1,093	2,065	895
Other loans (Note 17)	28,474	23,152	6,885	11,731
	52,340	28,313	19,228	23,829

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.

At the maturity date of 30 June 2004 a total of £19,221,074 had been converted into ordinary shares and the balance of £778,926 had been redeemed for cash. The security detailed above was also released.

16 Creditors: amounts falling due after more than one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Other loans (Note 17)	23,365	–	7,740	–

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 2004

Currency	Interest-free £000	Floating Rate £000	Total £000
Cash			
Sterling	–	530	530
US Dollar	–	3,546	3,546
Roubles	–	286	286
	–	4,362	4,362
Investments			
Sterling	6	–	6
	6	4,362	4,368

31 December 2003

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

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 2004

Currency	Interest-free €000	Fixed Rate €000	Floating Rate €000	Total €000	Fixed Rate Weighted average interest rate %	Weighted average period for which rate is fixed, year
Sterling	–	–	–	–		
US Dollar	6,653	20,904	13,065	40,622	10	0.95
Roubles	–	6,003	5,214	11,217	12	0.18
	6,653	26,907	18,279	51,839		

31 December 2003

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

At 31 December 2004 the fixed rate liabilities comprise a loan from Amsterdam Trade Bank N V of US\$20,000,000 (2003 nil) which bears interest at the rate of 10% per annum, a loan from Gradison Consultants Inc of US\$8,000,000 (2003 nil) which bears interest at the rate of 12.5% per annum, a loan from Mantrac Investment Inc of US\$2,000,000 (2003 – nil) which bears interest at the rate of 5% per annum, loans from the International Moscow Bank of £845,000 (45,000,000 Roubles), (2003 – £574,000 (30,000,000 Roubles)) which bears interest at the rate of 13%, loans from Bank Zenit of \$9,990,000 and a Rouble denominated loan of £5,158,000 (275,000,000 Roubles) (2003 – nil) which bear interest at the rates of 10.25% and 12.3% respectively and a loan from the Russian Ministry of Finance of £89,000 (\$171,000) which bears interest at 10%.

At 31 December 2004 the floating rate liabilities comprise a loan of US\$17,000,000 (2003 – nil) from Central Energy AG, a loan from Select Energy Trading GmbH of US\$3,100,000 (2003 – US\$17,000,000) which bears interest at the US\$ one month Libor rate plus 5.5%, loans from International Moscow Bank of US\$3,000,000 and US\$2,000,000 (2003 – nil) which bears interest at the US\$ one month Libor rate plus 5.2% and a rouble denominated loan from the Moscow Oil Company of £5,214,000 (278,000,000 roubles) (2003 – nil) which bears interest at a rate linked to the Central Bank of Russia's borrowing rate and equates to approximately 9%.

At 31 December 2003 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 £6,653,000, (2003 – £7,140,000) and a loan for oil trading of £nil (2003 – £474,000).

(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 2004 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	–	(26,020)	86	(25,934)
US Dollar	–	–	(11,015)	(11,015)
	–	(26,020)	(10,929)	(36,949)

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	
Sterling	–	(4,634)	11	(4,623)
US Dollar	–	–	(1,463)	(1,463)
	–	(4,634)	(1,452)	(6,086)

(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 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
In one year or less				
Convertible loan notes	–	725	–	725
Other loans	28,474	23,152	6,885	11,731
	28,474	23,877	6,885	12,456
Between one and two years				
Other loans	23,365	–	7,740	–
	51,839	23,877	14,625	12,456

(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 were 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 Sibir.

Conversion of the notes into ordinary shares was 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 the maturity date of 30 June 2004 a total of £19,221,074 (31 December 2003 – £19,172,874) of convertible loan notes had been converted into ordinary shares in the Company with the balance of the convertible loan notes of £778,926 having been redeemed for cash (31 December 2003 – £106,000). The fixed and floating charge has also been released.

(g) Borrowing Facilities

At 31 December 2004 the Company had a pre-export finance facility with Central Energy AG for US\$17,000,000 (2003 – Select Energy Trading GmbH for \$17,000,000) of which \$17,000,000 (2003 – US\$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%. The loan is due for repayment in monthly instalments commencing on 31 October 2005 at the rate of US\$710,000 per month for twenty three months with a final payment of \$670,000 on 30 September 2007. The facility is for the purposes of oilfield development. 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 2004 the Company's subsidiary Magma had loans from the International Moscow Bank. These included two loans of 30,000,000 roubles and 15,000,000 roubles and the security for these loans are charges over a heater treater belonging to Magma and oil stored at Yuzhnoye.

At 31 December 2004 the Group had a loan from the Amsterdam Trade Bank NV of US\$20,000,000. The loan is held for a fixed term and matures on 24 May 2006. The loan covenants require that the Group maintains its 50% interest in SPD, whose licences for the exploration of natural resources must remain in place, that the net borrowings of Evikhon should not exceed US\$1 million and that the Group does not pledge its shares in SPD.

The Group did not have any undrawn borrowing facilities as at 31 December 2004 (2003 – £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.

At 31 December 2004

	Book Value £000	Estimated Fair Value £000
Primary financial instruments held		
Investments	6	33
Cash	4,362	4,362
Short term borrowings	28,474	28,474
Long term borrowings	23,365	20,765

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	–	–

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 2004 but continues to monitor the position.

18 Obligations Under Operating Leases

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

Group and Company

	Land & buildings 2004 €000	Land & buildings 2003 €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 2004	679	350	811	1,840
Additions during the year	–	18	–	18
Unwinding of discount	–	40	–	40
Disposals of fixed assets	(679)	–	–	(679)
Utilised during the year	–	(62)	–	(62)
Currency movements	–	(24)	–	(24)
At 31 December 2004	–	322	811	1,133

Company

	Other €000	Total €000
At 1 January and 31 December 2004	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:

	2004 €000	2003 €000
Undiscounted net deferred tax liability		
Accelerated capital allowances	679	768
Other timing differences	–	(55)
Tax losses	(679)	(34)
	–	679

20 Share Capital

Authorised

	31 December 2004 No.	31 December 2003 No.	31 December 2004 £000	31 December 2003 £000
Ordinary shares of 10p each	–	2,400,000,000	–	240,000
New Ordinary shares of 10p each	300,000,000	–	30,000	–
Deferred shares of 90p each	240,000,000	–	216,000	–
			246,000	240,000

Allotted, called up and fully paid

	31 December 2004 No.	31 December 2003 No.	31 December 2004 £000	31 December 2003 £000
Ordinary shares of 10p each	–	1,746,537,830	–	174,654
New Ordinary shares of 10p each	203,160,802	–	20,316	–
Deferred shares of 90p each	191,847,421	–	172,663	–
			192,979	174,654

During 2004 a total of 288,643 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 £48,200 of convertible loan notes into shares.

On 22 October 2004, following Bennfield Limited's exercise of its option, a total of 171,647,731 new ordinary shares of 10p each at the average loan note conversion price of 11.655p were issued for a total realisation of £20,005,000.

In order to make the number of Ordinary Shares in issue more manageable and the share price more attractive to potential investors a Capital Reorganisation was approved by Shareholders at an EGM held on 20 December 2004. The Reorganisation was designed to reduce the number of authorised and issued ordinary shares through a share consolidation and subsequent sub-division. Prior to the Reorganisation the authorised share capital of the Company was £240,000,000 consisting of 2,400,000,000 ordinary shares of 10p each. Step 1 of the Reorganisation was consolidation of the existing shares and for every 10 shares in issue one ordinary share of 100p was created. Step 2 sub-divided the ordinary shares of 100p each into one New Ordinary Share of 10p and one Deferred Share of 90p. (The Deferred Shares carry no rights to vote or to participate in dividends and in Step 3 it is intended that the Deferred Shares will be cancelled in due course).

At the Extraordinary General Meeting held on 20 December 2004 Shareholders also approved two further issues of New Ordinary Shares. These issues were to Bennfield Limited and consisted of the issue of 6,555,555 New Ordinary Shares, in satisfaction of a cash payment due for services rendered to the Company, and 4,757,826 New Ordinary Shares in satisfaction of a loan from Bennfield Limited of \$21,410,219.

Shareholders at the 20 December EGM also approved an increase in the authorised share capital. In summary the Authorised Share Capital of the Company as at 31 December 2004 is now £246,000,000 and this is made up as follows:

- New Ordinary 10p Shares – 300,000,000
- Deferred 90p Shares – 240,000,000

The total number of Deferred 90p Shares issued at 31 December 2004 is 191,847,421.

The total number of New Ordinary 10p shares issued and outstanding as of 31 December 2004 is as follows:

- New Ordinary 10p Shares – 203,160,802

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 2004 options under this scheme were outstanding over 4,850,000

ordinary shares exercisable at 10p each. These are exercisable at any time up to 9 June 2010. As a result of the Capital Reorganisation described above these options have been consolidated into 485,000 exercisable at 100p.

On 22 December 2004 a further 100,000 options over new ordinary shares were issued and these are exercisable at any time up to 21 December 2013 at an exercise price of 195p.

Shares to be Issued

Ordinary shares of 10p each	31 December 2004 No.	31 December 2003 No.	31 December 2004 £000	31 December 2003 £000
Nominal value	800,000	–	80,000	–
Share premium			1,920,000	–
Total			2,000,000	

Since the end of the year the Company has agreed to issue 800,000 new ordinary shares at the price of 250p per share in partial settlement of fees for corporate advisory services rendered during 2004. The total value of the services is £2,530,000 with £2,000,000 being settled by the issue of the new shares and the balance in cash.

21 Reserves

Group

	Capital Redemption reserve £000	Share premium account £000	Profit and loss account £000
At 1 January 2004	14,396	39,256	(82,925)
Loss for the year	–	–	(30,820)
Exchange differences	–	–	(1,631)
Premium on shares issued	–	30,012	–
At 31 December 2004	14,396	69,268	(115,376)

Included in the loss for the year of £32,451,000 is £1,631,000 of exchange differences. £1,267,000 have arisen as a result of the re-translation of related borrowings and the balance of £364,000 is due to the retranslation of the net investments.

Company

	Capital Redemption reserve £000	Share premium account £000	Profit and loss account £000
At 1 January 2004	14,396	39,256	(87,906)
Loss for the year	–	–	(27,741)
Premium on shares issued	–	30,012	–
At 31 December 2004	14,396	39,256	(115,647)

22 Notes to the Statement of Cash Flows

	2004 £000	2003 £000			
(a) Reconciliation of operating loss to net cash outflow from operating activities					
Operating loss	(9,928)	(4,049)			
Fee for services of Bennfield Limited	16,389	–			
Depreciation, depletion and decommissioning	1,763	2,192			
Decrease in loan provision	(474)	–			
Increase/(decrease) in stocks	(6,619)	610			
Increase in debtors	(29,155)	(316)			
Increase/(decrease) in creditors	19,012	(3,159)			
Net cash outflow from operating activities	(9,012)	(4,722)			
(b) Returns on investment and servicing of finance					
Interest received	40	20			
Interest paid	(2,377)	(1,128)			
	(2,337)	(1,108)			
(c) Taxation					
Corporation tax paid	(3,596)	(823)			
(d) Capital expenditure and financial investment					
Purchase of tangible fixed assets	(5,377)	(17,869)			
Sale of plant and machinery	–	–			
Loans to joint venture	(47,156)	–			
	(52,533)	(17,869)			
(e) Financing					
Receipt of loans	107,654	10,899			
Proceeds of share issue	20,005	24,000			
Expenses of share issue	–	(1,267)			
Proceeds of share options	–	450			
Repayment of convertible loan notes	(677)	–			
Repayment of unsecured loan	–	(141)			
Repayment of secured loan	(64,603)	(3,704)			
	62,379	30,237			
(f) Analysis of net debt					
	At 1 January 2004 £000	Cash flow £000	Exchange differences £000	Other Non-cash movements ^[i] £000	At 31 December 2004 £000
Cash at bank and in hand	9,461	(5,099)	–	–	4,362
Debt due after one year	–	(23,365)	–	–	(23,365)
Debt due within one year	(23,877)	(19,009)	2,366	12,046	(28,474)
	(14,416)	(47,473)	2,366	12,046	(47,477)

[i] The other non-cash movements comprise a loan of £11,524,000 from Bennfield Limited which was repaid during the year by the issue of New Ordinary shares, £48,000 of 15% convertible loan notes which were converted into new ordinary shares of the Company during 2004 and the release of a provision against a loan of £474,000.

23 Capital Commitments

	Group 2004 £000	Group 2003 £000
Contracted but not provided for	535	5,500

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"). Henuset 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 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. There were no unpaid contributions to the schemes as at 31 December 2004 (2003: £nil).

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 2004 Bennfield Limited owned 43.82% of the Company's ordinary share capital.

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, Bennfield, Mr. Pavel Tchigirinski and Mr. Chalva Tchigirinski entered into a Controlling Shareholder Agreement with the Company on 12 June 2000.

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

Except with the consent of the London Stock Exchange, Bennfield will be committed for as long as it controls 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;

- Not to become a substantial shareholder in any company or business which is in direct competition with the Company without the approval of the Independent members of the Board or prior approval of the Company's shareholders;
- To conduct all transactions and relationships with the Company on an arm's length basis on normal commercial terms;
- 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; and
- To ensure that the Board has at all times no fewer than two independent directors.

Mr. Pavel Tchigirinski and Mr. Chalva Tchigirinski undertook that for as long as anyone concerned with them control more than 50% of the issued ordinary share capital of the Company, they will not become substantial shareholders in any company or business which is in direct competition with the Company without the approval of the Independent members of the Board or prior approval of the Company's shareholders.

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 were converted into ordinary shares this had the effect of reducing Bennfield's voting shareholding in Sibir to below 50%. Accordingly, Bennfield was 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 ran for fifty six days from the date upon which the maximum number of ordinary shares issued as a result of conversion of the notes, became known.

In June 2004 the balance of the convertible loan notes, which had not previously been converted, were redeemed for cash. This meant that the maximum number of ordinary shares for which Bennfield could become entitled to subscribe, could now be determined. The total amount of convertible loan notes converted into shares in the Company was £19,221,074 and these had been converted at an average conversion price of 11.655p. This meant that Bennfield Limited was entitled to exercise its right to subscribe for 171,647,751 ordinary shares at 11.655p each. This, it duly did, by paying a total subscription price of £20,005,000 for the new shares.

At the Extraordinary General Meeting held on 20 December 2004 Shareholders approved an issue of 6,555,555 New Ordinary Shares to Bennfield at a value of £2.50, in satisfaction of a cash payment due for services rendered to the Company. This fee was expensed to the Profit and Loss Account in 2004.

In November 2004 the Company received a loan from Bennfield Limited of US\$21,410,219 on commercial terms and also at the EGM held on 20 December 2004 shareholders approved the issue of 4,757,826 New Ordinary Shares at a value of £2.50 per share in satisfaction of the loan.

(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 and Stuard Detmer. Additionally, Chalva Tchigirinski holds the position of General Director of the Central Fuel Company.

(iii) Moscow Oil Company

The Moscow Oil Company is related by virtue of cross-Directorships and the position of Chalva Tchigirinski as General Director of Moscow Oil Company.

During 2004 Magma purchased at arm's length a total of 380,000 tons of crude oil from the Moscow Oil Company for a total of US\$74,500,000 which was processed at the Moscow refinery into various refined products which were subsequently sold on export or domestic markets. The purchases of the crude oil were financed by various short term finance loans (with interest rate ranges of 10-15%), which included a total of US\$8,795,000 from the Moscow Oil Company all of which was repaid during the year.

In addition, Moscow Oil Company also provided a long term loan of US\$10,090,000 to Evikhon for the purposes of the development of the Salym oilfields. The loan matures in August 2007 and bears interest at approximately 9%.

(iv) Mantrac Invest Inc ("Mantrac")

Mantrac Invest Inc is related to the Sibir group in that Mantrac is beneficially owned by Chalva Tchigirinski. During 2004, Magma sold and Mantrac purchased on an arm's length basis a total of 316,919 metric tons of oil products for a total of \$92.6 million. The oil products sold to Mantrac included gasoline, diesel, as well as heating oil.

(v) Loans from related parties

During 2004 the Company received a number of short term loans from Mantrac and Gradison Consultants Inc ("Gradison") both of which are beneficially owned by Chalva Tchigirinski. The loans bear interest ranging from 5% to 12.5% and were made for the purpose of financing crude oil purchases and the development of the Salym oilfields. The loans received from Mantrac and Gradison during the year totalled US\$18,238,000 and US\$10,000,000 of which US\$2,000,000 and US\$8,000,000 remained outstanding as at 31 December 2004.

28 Events since the Balance Sheet Date

(i) Derivative Minority Shareholder Claim

On 3 May, the Company announced that it had received from Stephen Alexander of ClassLaw Solicitors LLP a faxed copy of a Freezing Injunction Order granted on 28 April in the High Court of Justice Chancery Division in the UK. The order was made against Bennfield Limited, Chalva Tchigirinski himself and Alexander Tchigirinski, his brother (together referred to as the Respondents). The Injunction prohibits the Respondents from selling, or in any way dealing with any of their shares in Sibir or Bennfield, save in circumstances where the Respondents have paid £30 million into Court.

On 21 June 2005 and after three days of submissions from legal counsel, the hearing to determine whether the case should proceed to trial was concluded and Sibir's Chairman decided to accept the suggestion of the judge and commission a legal enquiry by an independent and reputable lawyer into such matters as the judge feels need further exploration. It is anticipated that the result will be published in August.

(ii) Anti-Monopolies Approval and Completion of Acquisition of Evikhon Shares Acquired from Dana Petroleum

On 13 June 2005 the Company announced that it had received the requisite approval from Russia's Federal Anti-Monopoly Service and has completed the transaction acquiring the 10% interest previously owned by Dana in Evikhon, Sibir's Russian subsidiary which is partnered with Shell in a 50/50 joint venture to develop the Salym group of oil fields in Western Siberia.

As announced on 10 March 2005, Sibir paid \$28 million cash for Dana's interest and exercised its right under the acquisition agreement with Dana to nominate a third party to hold the shares on its behalf, pending Anti-Monopoly approval. The shares were held by Strand Associates Limited, the holding company of Strand Partners, Sibir's nominated advisor. With Anti-Monopoly approval the shares were transferred to Sibir's control effective 3 June 2005.

Completion of the acquisition brings Sibir's total interest in Evikhon to 92%. The remaining 8% of Evikhon will be acquired upon completion of the acquisition of Hitchens Global SA, a transaction which was previously agreed and approved by Sibir shareholders at the EGM held on 20 December 2004.

(iii) Moscow Oil and Gas Company

At an MOGC shareholders meeting held on 17 June 2005 it was reported to and accepted by the shareholders that CFC and Sibir owned 68.51% and 31.49% respectively of the shares of MOGC which, in the case of Sibir, were as a consequence of the first transfer of its Yugraneft shares. As has previously been announced it was agreed that following the discovery by MOGC of the wrongful dilution to less than 1% of Sibir's interest in Sibneft-Yugra, the Boards of CFC, MOGC and Sibir agreed on the need to preserve the concept of MOGC forming part of an integrated oil group and further agreed that Sibir would substitute the Sibneft-Yugra assets with other Sibir assets. It was subsequently agreed that Sibir would contribute its 95% interest in the Magma Oil Company. Sibir representative Henry Cameron declared that the shares issued to Sibir were held by it in trust for CFC until Sibir had contributed its investment in Magma Oil Company. This declaration was minuted and the resultant capacity in which Sibir held the shares was recognised by CFC.

In that regard, the Company anticipates that the requisite Anti-Monopoly approvals will be completed in July immediately upon which the transaction will also be completed.

(iv) Sibneft Yugra

In January 2005, OAO Yugraneft, the holding company for the Company's original 50% stake in the Sibneft Yugra joint venture filed for bankruptcy in the Moscow Arbitration Court. On 22 June 2005 the Company announced that, on 20 June, the Ninth Appellate Arbitration Court upheld a 19 April ruling by the Moscow Arbitration Court and in so doing denied Sibneft's attempts to block the Yugraneft bankruptcy action. The Administrator now has 18 months to draft, agree and effect a plan for the restitution of the Company's assets and its return to financial solvency. As an appointed Court official he is empowered to carry out an investigation in a manner which exceeds the powers of Yugraneft itself. The Administrator is authorised to apply to the court to:

- Restore missing assets;
- Declare void any interested party transaction or otherwise illegal transactions designed to harm the interests of Yugraneft; and
- Declare void any illegal preferred payments or 'gratuitous alienations'.

(v) Magma

On 23 May 2005, Sibir announced that the results of a feasibility study on oil recovery from the Yuzhnoye oilfield had resulted in an increase of almost 30 million barrels in reserves as measured by the Russian C1 + C2 classification. The feasibility study was carried out by Magma in accordance with its obligations under the conditions of the Yuzhnoye licence, together with VNIINEft, a leading Russian petroleum institute. The work involved appraisal of 3 new wells, 489 km of 2D seismic, and geologic and hydronomic modelling of the reservoir. The study was presented to the Russian Ministry of Natural Resources which approved an increase in the estimated remaining C1+C2 recoverable reserves in the Yuzhnoye oilfield to 10.691 million tonnes (80.5 million barrels) compared to the previous Russian official number of 6.728 million tonnes (50.7 million barrels). Of this total, the C1 category (Russian "proved") increased to 9.784 million tonnes (73.7 million barrels). Since it is anticipated that Magma will be used in an all-Russian transaction as a contribution to the creation of MOGC, it is appropriate that future reporting of Magma's reserves will use as a base these updated numbers utilising the Russian classification standard.

Corporate Directory

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Henry O Cameron, Chief Executive
Alexander Betsky, Finance Director
Stuard Detmer, Downstream Operations Director
Urs Haener, Executive Director
Chalva Tchigirinski, Non-Executive Director

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